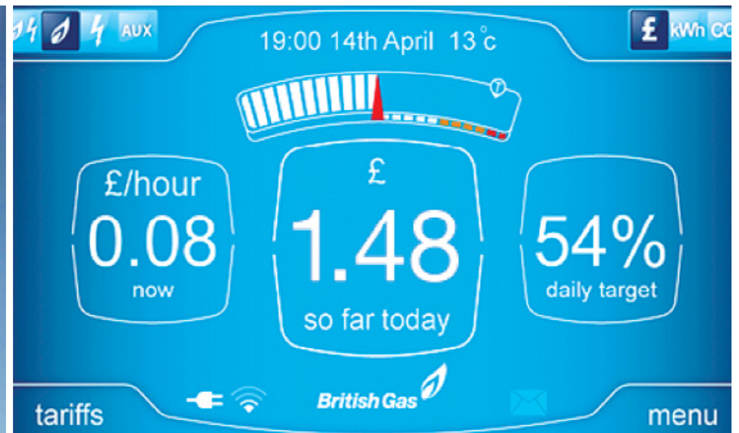
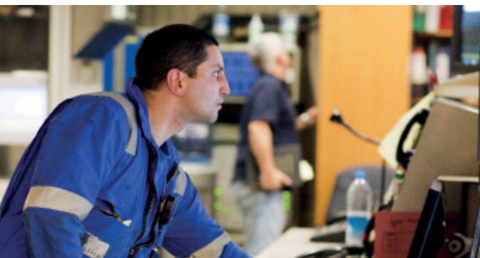
centrica

AT CENTRICA, WE UNDERSTAND THAT ENERGY IS ESSENTIAL FOR ALL OF US, BOTH NOW AND FOR THE FUTURE →

Annual Report and Accounts 2011



CENTRICA AT A GLANCE



OUR VISION IS TO BE THE LEADING INTEGRATED ENERGY COMPANY IN OUR CHOSEN MARKETS

WHAT WE DO

WE PLAY A PART AT EVERY STAGE OF THE ENERGY CHAIN, FROM SOURCING ENERGY TO SAVING IT

WE SOURCE IT
By finding and producing new gas reserves across the world

WE GENERATE IT
Through our highly efficient gas-fired power stations and wind farms

WE PROCESS IT
At our onshore gas terminals to make it safe for our customers to use

WE STORE IT
At our Rough gas storage facility – the largest storage operation in the UK

WE TRADE IT
In the UK, North America and Europe and sign contracts to secure gas for our customers

WE SUPPLY IT
To millions of residential and commercial customers in the UK and North America

WE SERVICE IT
Through our energy services and installations businesses in the UK and North America

WE SAVE IT
By offering innovative low carbon products and services to our customers

WHERE WE OPERATE

OUR CHOSEN MARKETS ARE THE UK AND NORTH AMERICA

IN THE UK
British Gas is the leading residential and business energy and services provider. Our upstream Centrica Energy and Centrica Storage operations are working to provide energy security for our customers, sourcing, storing and supplying the energy that millions of homes rely on every day

centrica energy

Business Review **pg 18**

centrica storage

Business Review **pg 21**

IN NORTH AMERICA
Direct Energy is one of the largest energy and services providers, supporting and managing our customers' energy needs with innovative products, services and increasing gas reserves

Business Review **pg 23**

OUR STRATEGIC PRIORITIES

OUR STRATEGIC PRIORITIES ENSURE WE ARE ON COURSE TO DELIVER OUR VISION

Business Review pg 14

GROW BRITISH GAS
Leading the transition to low carbon homes and businesses

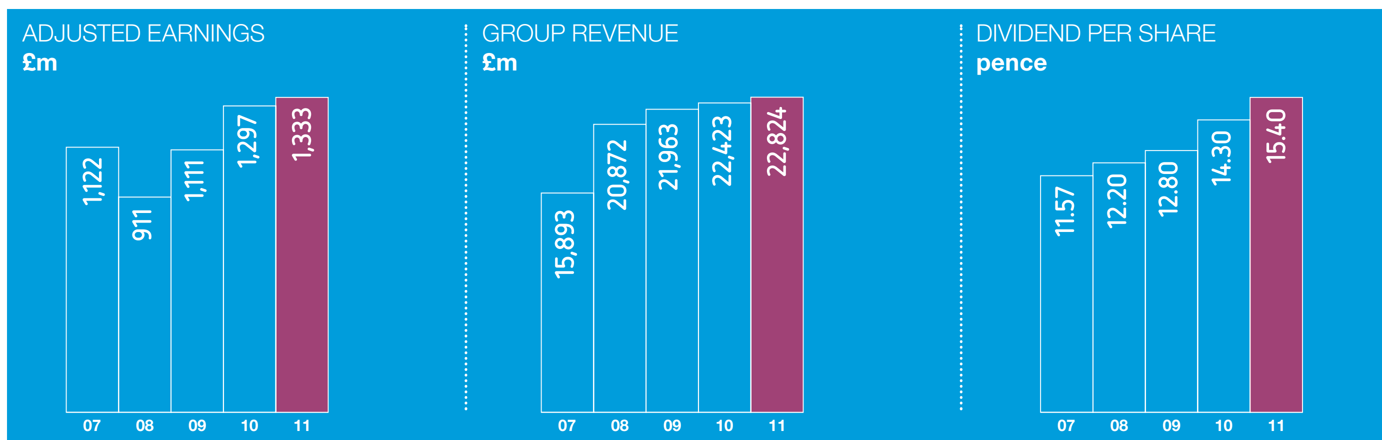
DELIVER VALUE FROM OUR GROWING UPSTREAM BUSINESS
Securing sustainable energy for our customers

BUILD AN INTEGRATED NORTH AMERICAN BUSINESS
With leading positions in deregulated markets

DRIVE SUPERIOR FINANCIAL RETURNS
Through operating performance and our unique investment choices

TO DELIVER LONG-TERM VALUE TO OUR CUSTOMERS AND SHAREHOLDERS

PERFORMANCE HIGHLIGHTS



Financial highlights	**2011**	2010
Revenue‡	**£22.8bn**	£22.4bn
Total adjusted operating profit‡*	**£2,415m**	£2,390m
Total adjusted taxation charge^	**£891m**	£761m
Total adjusted effective tax rate^	**40%**	37%
Adjusted earnings◊	**£1,333m**	£1,297m
Adjusted basic earnings per share◊	**25.8p**	25.2p
Full-year dividend per share	**15.4p**	14.3p
Statutory results		
Operating profit‡	**£1,414m**	£3,074m
Earnings	**£421m**	£1,942m
Basic earnings per ordinary share	**8.2p**	37.6p
Group capital and acquisition expenditure	**£1,601m**	£1,669m

Earnings include exceptional items relating to provisions for onerous contracts, impairments, restructuring costs, contract migration, a change in the UK upstream tax rate, an exceptional credit relating to pension curtailment and a loss on disposal of Oxxio. The total impact is a charge of £522 million after taxation.

▶ Throughout the Business Review, reference is made to a number of different profit measures which are shown in the table on **pg 27**

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

◊ As above, except joint ventures and associates stated after interest and taxation

^ Includes taxation on profit from continuing operations and tax from joint ventures and associates as reconciled in the Group Financial Review

‡ From continuing operations

At Centrica, we understand that energy is essential for all of us, both now and for the future.

That's why we are active in each stage of the energy lifecycle: from sourcing and generating to processing and storing; from trading and supplying to servicing and, crucially, to saving energy.

We want current and future generations to be able to rely on secure energy supplies. So, we are making vital investments across the whole energy spectrum – in nuclear and gas-fired power stations, wind farms, liquefied natural gas and in global exploration for new sources of gas.

At the same time, because we know we must reduce our dependence on carbon, we are working hard to supply cleaner energy. We are also investing in advanced technology to deliver products and services to help customers use energy more efficiently, for today and tomorrow.

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ONLINE

This annual report can be viewed online. To see more go to www.centrica.com/report2011

CHAIRMAN'S STATEMENT

Economic headwinds continue to prevail as we enter 2012 but I remain confident that the management are both appropriately skilled and suitably determined to meet the challenges that lie ahead.

REVIEW OF THE YEAR

2011 was a year of turbulence and challenge. At the beginning of the year there was little indication how dramatically events would unfold for the world in general or for Centrica in particular.

The Japanese nuclear power disaster at Fukushima in March cast a shadow over the industry as nuclear plants across the globe were shut down, driving up demand for gas and resulting in higher wholesale prices worldwide. Events in the Middle East and North Africa created further political and economic uncertainty as the unrest spread in the spring and energy prices reacted again to the increased risk to supplies.

In the wake of a 30% increase in wholesale gas prices and escalating losses in British Gas, we were faced with the need to implement a significant price increase, in the knowledge that any rise in the cost of living would be very difficult for hard pressed customers, already struggling in a severe economic downturn.

In an effort to mitigate the scale of the increase, whilst preserving a 6% pre-tax residential energy profit margin for the year, management conducted a thorough reappraisal of the cost structure of the Group. With considerable cooperation from employees and unions, we were able to improve engineers' rostering and customer service, lower future pension costs and reduce overheads through the loss of some 2,300 roles across the Group. This was painful but necessary to support our competitive position in challenging markets.

Maintaining an efficient cost structure, however, was not done at the expense of building talent for the future. British Gas continued to invest more than £25 million during the year in academies and apprenticeships, helping to train the young and re-skill older employees.

In parallel, we focused on securing long-term supplies of gas to provide security of supply for our customers. This was achieved by the completion of a ground breaking liquefied natural gas (LNG) agreement with Qatar, the acquisition of new gas fields for exploration and production and towards the end of the year, a long-term supply agreement with Statoil in Norway.

In March however, our investment plans for the UK sector of the North Sea were undermined by the sudden imposition of higher taxes on production of oil and, most harmfully, gas. In spite of the representations made by ourselves and the rest of the industry to Government, no change was forthcoming to this damaging decision.

Centrica, together with other members of the industry, made it clear to Government ministers that capital intensive industries must have long-term certainty of both regulatory and tax regimes if they are to be major investors in the UK energy infrastructure. Our own major shareholders echoed this view. As one of the UK's largest taxpayers, with Centrica contributing around £800 million a year to the Treasury, it is hoped that our case has been heard.

On a more positive note, we have welcomed the Government's proposals for electricity market reform and the carbon floor price, as well as its commitment to the new nuclear programme. However, the detail still needs to be agreed, the pace of progress needs to accelerate and economic returns must be in keeping with our commitment to shareholder value.

Whilst the upstream team were securing the Group's future energy requirements, the downstream team continued to work with customers to help reduce consumption.

Household surveys and home insulation were provided free of charge to British Gas customers and new smart meters helped people monitor and manage their energy usage. We continue to pay particular care to the more vulnerable members of society.

As inflation increased and economic conditions became more difficult, energy companies found themselves the target of public criticism. British Gas, as the largest UK supplier, was at the forefront of the debate. The scale of price increases, driven by factors entirely beyond the control of the energy suppliers, were considered by much of the public to be unsupportable whatever the rationale for the increase.

It was for this reason that British Gas decided to embark on its 'honest conversation' campaign with customers in the late autumn.

The campaign sought to explain the factors that have given rise to increases in the energy bill, which are faced by all energy suppliers. We also reiterated Ofgem's findings that there is no collusion in the sector and our view that pre-tax profits averaging 6-7% through the cycle are both modest and necessary to sustain the multi-billion pound investment programme required to secure UK energy supplies and deliver energy efficiency. In parallel, British Gas led the way in tariff simplification.

Continued on **pg 04**

Directors' Report – Business Review
Directors' Report – Governance
Financial Statements
Appendix to the Directors' Report
Shareholder Information

OUR ROBUST GOVERNANCE STRUCTURE

For more information on our approach to Governance, go to page 44

ENSURING THE BUSINESS IS RUN THE RIGHT WAY

Sound corporate governance – the building blocks to ongoing success

The composition of the Board continues to evolve. Recently appointed members are already bringing new dynamics to the Board and, together with the existing Directors, have formed a diverse and dedicated team who take their responsibilities seriously.

In late 2010, we were pleased to recruit Ian Meakins, the CEO of Wolseley plc, to bring seasoned operational experience at the highest level to the Board. We subsequently appointed Margherita Della Valle, the Group Financial Controller of Vodafone Group Plc, with an invaluable history of both finance and consumer brand marketing in a world class business. The appointments proved to be excellent additions bringing both current operational experience and fresh perspectives to Board discussion.

In December 2011, after nine years, Dame Helen Alexander stepped down from the Board. Dame Helen made a material contribution to the Group, both as a Director and as Chairman of the Remuneration Committee, and will be much missed.

We were particularly fortunate, however, to recruit Lesley Knox, an experienced non-executive director and current Chairman of Alliance Trust Plc, to replace Dame Helen as both a Director and as Chairman of the Remuneration Committee with effect from 1 January 2012. Lesley brings a wealth of strategic and financial experience across a range of businesses which will help in the delivery of Centrica's strategic objectives.

Board Members Senior Executives

CHAIRMAN'S STATEMENT CONTINUED

There are signs that these actions are starting to resonate with the public and I hope that all commentators and the Regulator will take a more balanced view in the year to come.

We ended the year in the UK with the warmest last quarter on record which reduced consumption and meant that average customer bills for the year were lower than 2010, despite the higher unit prices. Inevitably, there was also an adverse impact on British Gas' profits.

The challenges in the UK were different from those faced in North America, where the increase in production of shale gas has dramatically reduced wholesale gas prices and unusual weather patterns also caused high volatility in electricity prices. A change in attitude to deregulation eroded our position in Ontario but we continued to increase market share and expanded our services business in the United States, while deploying our upstream capability to good effect.

In spite of everything, through a mixture of tenacity, innovation and endeavour, the management team, led by Sam Laidlaw, delivered a 3% increase in adjusted earnings which facilitated a further 8% increase in the full-year dividend to our shareholders of 15.4 pence per share.

Against that background, I am enormously grateful to all the employees of Centrica for their commitment, flexibility and considerable effort in a testing period. I also appreciate the continued support of our shareholders in an uncertain environment and the loyalty of our customers who we continue to serve with dedicated resolve, providing total service with a competitive edge.

During the course of the year, I have taken measures to refresh the Board, review its effectiveness and ensure continued achievement of the highest corporate standards.

Following the departure of Dame Helen Alexander, the Board will have a total of 12 directors of which five are Executive and six Non-Executive, in addition to myself as Chairman. The skill set of the Non-Executive Directors includes financial, consumer, marketing and upstream energy expertise. Non-Executive nationalities include British, Australian and Italian. Twenty-five per cent of the Board are women, with Non-Executive Directors, excluding the Chairman, being equally balanced between male and female.

The Executive Committee that operates one level beneath the Board has one female member and it is our ambition over time that both the Board and Executive Committee will have a more balanced executive gender mix.

Earlier in the year we confirmed our support for the recommendation made by Lord Davies following his review into Women on Boards which set an aspirational target of 25% of Board positions of FTSE 100 companies to be filled by women by 2015. Whilst it is our intention to maintain or exceed this ratio, we are, however, against the implementation of quotas. We recognise the benefits of greater diversity, not just gender specific, however, appointments within Centrica will continue to be made on merit.

Looking forward at our Board composition, our plan will be to reflect the increasing upstream content of our business mix with the recruitment of a Non-Executive Director who has both upstream and operating experience in North America. Longer term, we will seek to replace two further members of the Board who will complete their nine year term in 2013. According to circumstances at that time, we may choose to stagger their departure to ensure we retain appropriate corporate memory and a gradual infusion of new thinking.

Economic headwinds continue to prevail as we enter 2012 but I remain confident that the management are both appropriately skilled and suitably determined to meet the challenges that lie ahead. We are closely focused on delivering cost efficiencies, for the benefit of both our customers and our shareholders, while maintaining high levels of service and innovation. In parallel we will continue to invest for the future, driving long-term growth across the Group.

Sir Roger Carr
Chairman
23 February 2012

OUR BUSINESS PRINCIPLES

Our Group-wide business principles create a framework to help us make decisions in line with a consistent set of operating behaviours based on trust, integrity and openness.

1. Demonstrating integrity in corporate conduct.
2. Ensuring openness and transparency.
3. Respecting human rights.
4. Enhancing customer experiences and business partnerships.
5. Valuing our people.
6. Focusing on health, safety and security.
7. Protecting the environment.
8. Investing in communities.

Our ongoing campaign to communicate these principles will help our employees, business partners and external audiences understand the standards we expect. For more information, go to **www.centrica.com/businessprinciples**.

Earnings and operating profit numbers are stated, throughout the Annual Report, before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and before exceptional items and certain re-measurements where applicable – see note 2 for definitions. In addition, all references to profit and loss are stated before share of joint venture and associate interest and tax. The Directors believe these measures assist with better understanding the underlying performance of the Group. The equivalent amounts after exceptional items and certain re-measurements are reconciled at Group level in the Group Income Statement. Exceptional items and certain re-measurements are described in note 7. Adjusted earnings and adjusted basic earnings per share are reconciled to their statutory equivalents in note 11. All current financial results listed are for the year ended 31 December 2011. All references to 'the prior period', 'the prior year', '2010' and 'last year' mean the year ended 31 December 2010 unless otherwise specified.

CHIEF EXECUTIVE'S REVIEW

BUILDING GREATER TRUST BETWEEN SUPPLIER AND CUSTOMER

2011 was a tough year, both for Centrica and our customers. But the strength of our integrated business and balance sheet means we've been able to take the lead in helping customers through these difficult times, as well as delivering growth and making the investments on which Britain's energy future depends.

Centrica faced very difficult market conditions in 2011. Sharply rising wholesale commodity prices in the first half of the year meant that the UK residential energy supply business had become loss making, necessitating a significant increase in retail tariffs in August. Record mild weather, both in the Spring and in the Autumn, led to a 21% reduction in average household gas consumption and a 4% fall in average electricity consumption. As a result, the average domestic customer bill was some 4% lower in 2011 than the year before, despite the increase in unit prices. The squeeze on household disposable income has also put pressure on our residential services business, with customers deferring discretionary spending, especially on new central heating systems.

Upstream in the UK, the business delivered higher profits. This reflects good operational reliability from our assets and the effect of higher commodity prices, with a much improved performance from the nuclear fleet in particular. However, market conditions remained difficult for our gas-fired generation and gas storage businesses. In addition, the unexpected increase in upstream taxation announced in March reduced our upstream earnings. It also, unfortunately, came at a time when the UK needs to offer a stable tax regime if it is to attract the investment required to meet the country's future energy needs.

In North America, we delivered significantly higher operating profits, reflecting both the operational improvements we have made and the contribution from acquisitions. Direct Energy provides a strong platform for growth, using our expertise in deregulated markets to add scale upstream and downstream, where we see attractive opportunities.

Despite the difficult economic and political backdrop, which resulted in the business incurring a number of exceptional charges, we are pleased to have delivered further adjusted earnings growth, following a very strong result in 2010. Throughout the challenges faced during the year, we have demonstrated the resilience of the Centrica integrated business model. In addition, the total value of our commitments to secure gas for the UK now stands at more than £50 billion. We can only shoulder responsibilities on this scale with the financial security provided by our growing upstream asset base and a profitable downstream business.

STRATEGIC PRIORITIES AND DIRECTION UNCHANGED

Health and safety is our first priority – a message reinforced through regular management communication, operational practice, corporate policy, procedures and reward structures. During the year, we further strengthened our procedures around both customer safety and process safety and achieved a 42% reduction in our lost time injury frequency rate to 0.25 per 100,000 hours worked.

In these tough economic conditions, we remain focused on maximising the returns from our existing assets, while taking a disciplined approach to investment. We will also maintain a healthy balance between upstream and downstream activities as well as across generation types and geographies. Centrica remains, at its heart, a customer facing business.

Business Review

Upstream, we continue to focus on reliability, both in gas and oil production and in power generation; and we are making good progress on our investment programme, deploying our expertise to bring new projects on line. We are now widely recognised for our expertise across the energy value chain and have entered into strategic partnerships with other leading players in their field – in gas and oil, in offshore wind and in nuclear. In December we announced an intention to increase our upstream gas and oil production by 50% to 75 million barrels of oil equivalent (mmboe) per annum and to treble our offshore wind capacity, retaining investment options in new nuclear, biomass, new build CCGT and gas storage.

Downstream, the priority is to maintain the efficiency of the business and to benefit fully from our scale and brand, while maintaining high levels of customer service. In North America, we continue to increase the scale of the business, through organic growth and through acquisitions in key competitive markets. We are making good progress towards our goal of doubling the profitability of the business by 2014, seeking further opportunities for growth where we see value, both upstream and downstream.

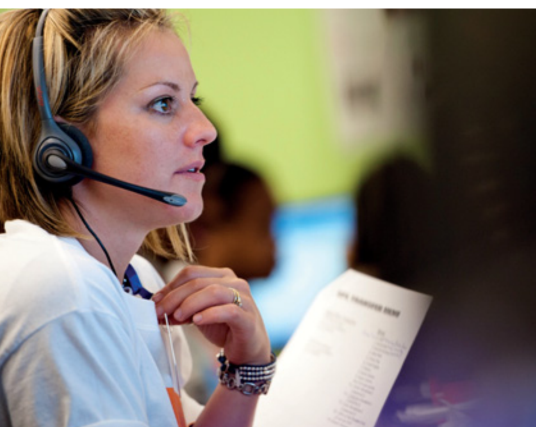
Given the need to remain competitive in all our divisions, we are undergoing a Group-wide process to sharpen the business for the benefit of our customers and our shareholders. We expect to deliver £500 million of cost savings over the next two years, allowing us to continue to invest for further growth within the existing cost base. The programme to identify efficiencies is already well under way, and we expect to realise around half of these savings in 2012. As part of these measures, we have taken out 2,300 roles across the business and implemented a pay freeze across much of the Group, including the Board; however, we remain committed to investing in the skills and the people we need to achieve our growth ambitions.

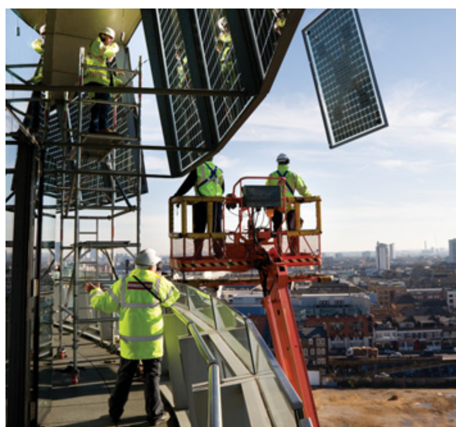
HONEST CONVERSATION

During the year, the energy supply sector faced increased regulatory and political scrutiny, as well as uncertainty surrounding Ofgem's proposals for retail market reform. We led the way in taking measures to help build customer trust by making the purchase of gas and electricity simpler, more transparent and fairer for consumers. We have simplified our tariffs and have also written to each of our customers, inviting them to check that they are on the most appropriate tariff. We are setting out the facts about energy prices, providing each customer with a breakdown on their bill of the actual costs of providing the energy they consume. We have also made sure that our most vulnerable customers receive the £120 Warm Home Discount, with the widest eligibility criteria of any major supplier.

However, there is still much to be done before consumer confidence can be fully restored. This will mean being much clearer about the cost of producing and providing energy to the customer's home, the rising cost of green levies, the impact of growing international demand for gas and the profits the industry makes. All of us – the industry, the Government and the Regulator – have a vital role to play in fostering an honest debate about energy, with affordability now a key issue for our customers.

In January 2012, we were the first of the major energy suppliers to implement a price reduction, with an immediate 5% cut in our standard electricity tariff. Nonetheless, the longer-term trend in wholesale energy prices and non-commodity costs remains upwards. That is why the work we are doing to help customers take control of their energy usage is so important – including free loft or cavity wall insulation, a free home energy survey and leading the way on the installation of smart meters for all our customers.





2011 INVESTMENT

We invested £1.6 billion of capital in 2011 across the Group, mainly in upstream gas and oil, in power generation and in North America. We have also already announced a further £1.4 billion of acquisitions which are expected to complete in 2012.

Upstream, expenditure included investment in our Ensign and York projects and our ongoing exploration programme. Construction of the Lincs offshore wind farm is making good progress and work is ongoing on new nuclear, prior to a final investment decision. In North America, we have made significant progress in growing the scale of the business both upstream and downstream, increasing our gas and liquid reserves by 14% and adding over 750,000 customers in our core growth markets, Texas and the US North East.

Building the geographic diversity of our asset portfolio is a key priority, and an increasing proportion of our investment now falls outside the UK. In November, we announced a new 10-year supply contract with Statoil and the acquisition of a package of Norwegian gas and oil assets. This marked a significant step change in the scale of our business, both in terms of production volumes and development opportunities, as well as forging a long-term working relationship with one of the leading players in the Norwegian market. Already in 2012, we have announced further upstream investments to increase our share in the Norwegian Statfjord field and acquire a package of UK North Sea assets from Total, providing further gas reserves for our customers.

Centrica is now seen to fill a key role on the global energy stage, enjoying close working relationships with major partners: in LNG, in nuclear, in offshore wind and in upstream gas and oil. At a time when many British companies are reluctant to invest because of economic uncertainty, we are deploying our capital to generate growth and returns for shareholders.

FUTURE INVESTMENT

Significant investment decisions lie ahead, both for the UK and for Centrica. It is vital that the Government provides the clarity and assurance that will be needed if the industry is to step up and deliver the massive investment – an estimated £200 billion in total by 2020 – that the country requires to secure its energy future and build a low carbon power industry.

Following the publication of the UK Government's White Paper on Electricity Market Reform, there remains much detail to be resolved to ensure the right framework for investment. We also look

WE ARE MAKING GOOD PROGRESS ON OUR CAPITAL INVESTMENT PROGRAMME, AND EXPECT TO SPEND A FURTHER £1.4 BILLION ON ORGANIC INVESTMENT IN 2012, WITH AROUND HALF IN THE UPSTREAM GAS AND OIL BUSINESS

to the Government to explain the importance of these investments to the country, balancing energy security, environmental goals and crucially, affordability, for this generation and for generations to come.

The Regulator too has a vital role to play in ensuring that the UK offers a stable and attractive investment climate, both in the upstream and the downstream. The proposed retail market reforms need to encourage investment in propositions for customers and smart meter technologies to improve energy efficiency, reduce complexity and increase customer choice.

The combination of strong cash flows and an attractive range of investment opportunities is a key attribute of the Centrica business model – with options to invest across the energy value chain and in different geographies, to deepen our customer relationships and secure the energy requirements of the Group for the future. We will only deploy capital where we see a strong strategic fit, together with attractive returns commensurate with the risks being undertaken.

OUTLOOK

As we look ahead, the external environment remains challenging. However, the past year has shown our business model to be robust, delivering year-on-year growth in a very difficult trading environment. Against this backdrop, we are taking positive action to sharpen our activities, with Group-wide initiatives already in progress to reduce costs and maintain our competitive edge. We are successfully bringing new investment projects on-stream, and will begin to see a contribution from recent acquisitions as we integrate them into our portfolio. Overall, we plan to deliver improved year-on-year adjusted earnings growth in 2012, subject to the usual variables of weather patterns and commodity price movements, although we continue to face some of the same headwinds as in 2011, in particular the effects of continued economic pressure on household and business budgets.

Downstream in the UK, we expect further progress in residential services, together with a positive contribution from our new energy activities. In the highly competitive market for residential energy supply, the outcome, as ever, depends on wholesale prices and the weather. In our Upstream UK business, we will progressively benefit from the higher wholesale commodity price environment, although the outlook for gas-fired generation remains weak and market conditions for new gas storage projects remain challenging. We will also benefit from the recently acquired gas and oil assets in the Norwegian and UK sectors of the North Sea. In North America, we expect to see the positive effect of organic improvements in the business, together with a contribution from recent acquisitions, both upstream and downstream. However, we continue to see customer losses in the Ontario energy supply business, as the regulatory environment has become less conducive to competition.

We are making good progress on our capital investment programme, and expect to spend a further £1.4 billion on organic investment in 2012, with around half expected to be in the upstream gas and oil business. This is in addition to the £1.4 billion already committed for the Statoil assets, the additional stake in Statfjord and the package of UK North Sea assets from Total. In the coming year, we expect the Ensign, Seven Seas, Rhyl and Atla fields all to produce first gas and our Lincs offshore wind farm to generate first power. We also expect to make a final investment decision on the development of the Cygnus gas field towards the middle of 2012, with a decision on the Race Bank offshore wind project expected around the end of the year, in each case subject to appropriate returns. On new nuclear, a final investment decision on Hinkley Point C is targeted for the end of 2012, although much remains to be achieved before this decision can be taken and the economics must prove to be sound. In gas storage, our Caythorpe project remains on hold and we continue to assess the Baird project.

In summary, the Centrica business model remains resilient, underpinned by strong cash flows and an attractive pipeline of investment projects. The business is well placed for the long term and we will continue to improve the service offering for our customers, both in the UK and North America. We will also drive further cost savings across the Group to enhance our competitiveness, and deliver increasing value through the efficient deployment of capital, in order to continue to enhance returns for shareholders.

Sam Laidlaw
Chief Executive
23 February 2012

1 WE SOURCE IT

by finding and producing new gas reserves from the seas around the UK, our natural gas assets in North America and a unique contract with Qatar

▶ Centrica Energy Business Review on **pg 18**

2 WE GENERATE IT

through our combined cycle gas turbine (CCGT) power stations in the UK and North America and from an increasing number of wind farms offshore from the UK in the North and East Irish Seas

▶ Direct Energy Business Review on **pg 23**

CHIEF EXECUTIVE'S REVIEW

A BUSINESS MODEL BUILT FOR THE ENERGY DEMANDS OF THE 21ST CENTURY

5 WE TRADE IT

in the UK, North America and Europe, as part of our strategy to maintain energy security ensuring there is always sufficient gas and power for our customers' warm and well lit homes and businesses

6 WE SUPPLY IT

to millions of residential and business customers in the UK and North America. We are leading the way with smart meter technology; bringing an end to estimated bills, providing accurate, real-time information on energy consumption and costs

▶ British Gas Business Review on **pg 14**

3 WE PROCESS IT

to ensure high quality gas enters the transmission system from onshore gas terminals in Easington and Barrow. Easington takes gas from our Rough storage facility and the Langeled pipeline from Norway

4 WE STORE IT

in the Rough natural gas field; for our own customers, other utilities, gas producers and gas traders. This facility, off the east coast of the UK, represents over 70% of the country's total gas storage capacity

Centrica Storage Business Review on **pg 21**

The energy chain demonstrates how Centrica plays a major part in every aspect of energy from sourcing it to saving it. Each of the eight links in the energy chain is critical to our success and helps us to deliver our vision to be the leading integrated energy company in our chosen markets.

7 WE SERVICE IT

providing peace of mind, delivered to millions of residential and business customers in the UK and North America with our pioneering products for central heating, boiler and cooling maintenance and breakdown cover

8 WE SAVE IT

by offering an increasing number of innovative low carbon, energy efficiency products and services; installing solar PV panels, insulation, ground and air source heating and solar canopies to charge the first fully-electric cars in the UK

Corporate Responsibility on **pg 29**

CHIEF EXECUTIVE'S REVIEW

DELIVERING OUR VISION

HOW WE'RE DELIVERING OUR VISION TO BE THE LEADING INTEGRATED ENERGY COMPANY IN OUR CHOSEN MARKETS

OUR STRATEGIC PRIORITIES

1 GROW BRITISH GAS

Despite a reduction in operating profit*, British Gas delivered a solid financial performance in 2011 in challenging market conditions, underpinned by our scale, our service and our drive for innovation. Despite the current economic challenges, operational improvements and investment for the next phase of growth leave us well placed for the long term.

2 DELIVER VALUE FROM OUR GROWING UPSTREAM BUSINESS

Centrica Energy delivered a significant increase in operating profit* in 2011. Our focus will remain on growing our upstream gas and oil business, through acquisition and organic development, and on expanding the scale of our offshore wind operations.

3 BUILD AN INTEGRATED NORTH AMERICAN BUSINESS

Direct Energy's operating profit* in 2011 benefited from operational improvements and cost efficiencies, and the impact of acquisitions. The business outlook remains positive and we expect continued growth across the business, both upstream and downstream.

4 DRIVE SUPERIOR FINANCIAL RETURNS

In tough economic conditions, our priority is to maximise returns from our existing assets, while maintaining a disciplined approach to investment. By streamlining our operations to create an improved, cost-efficient organisation, we expect to deliver £500 million of cost savings over the next two years, allowing us to continue to invest for further growth within the existing cost base.

£50BN

The total value of our commitments to secure gas for the UK now stands at more than £50 billion

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

DELIVERING AGAINST OUR PRIORITIES

- Improved delivery for customers with Nectar, Sainsbury's and online.
- 4 star rating from Consumer Focus.
- First to reduce residential energy tariffs in 2012, regaining the cheapest electricity position.
- Services continued to see growth in accounts.
- Improved service flexibility.
- Further progress in new markets including social housing, insulation, microgeneration and smart meters.

Operating profit* in British Gas residential services increased by 10% to £264 million with increased operating margins, despite the challenging economic environment.

- Good asset performance.
- Deploying distinctive capabilities enabled a production replacement ratio of 112% reflecting upgrades of existing fields.
- North Sea reserve additions through agreements to acquire 175mmboe of reserves in Norway and the UK continental shelf.
- Signed a new 10-year supply contract with Statoil.
- First delivery of LNG to Isle of Grain under Qatargas contract.
- Nuclear output up 16% and wind output up 21%.

In December, we announced an intention to increase our upstream gas and oil production by 50% to 75mmboe a year and to treble our offshore wind capacity.

- Increased scale in residential energy with Gateway, First Choice Power and Vectren Retail acquisitions plus organic growth in US North East.
- Further volume growth and sustained margins in business energy.
- Integration of Clockwork completed.
- Acquired insurance capability in the US through Home Warranty of America (HWA).
- Improved performance upstream with 14% increase in proven and probable reserves.

We delivered significantly higher operating profits* in North America, reflecting both the operational improvements we have made and the contribution from acquisitions. Direct Energy provides a strong platform for future growth.

- Strong returns from existing assets.
- Maintained efficiency and service levels downstream – leadership through scale and brand.
- Disciplined approach to investment, aligned with strategy and capabilities.
- Healthy balance between upstream and downstream.
- Strengthened the hedge, adding scale and value.
- Customer remained at the heart of everything we do.

Strong cash flows and an attractive range of investment opportunities is a key attribute of our business model. We will only deploy capital where we see a strong strategic fit, together with attractive returns commensurate to the risks being undertaken.

KEY PERFORMANCE INDICATORS
MEASURING OUR PERFORMANCE

We monitor our performance by measuring and tracking key performance indicators (KPIs) that we believe are important to our longer-term success. Long-term sustainable performance of these KPIs is also linked to our executive and senior management remuneration arrangements.

FINANCIAL

Adjusted operating profit

Operating profit is our key measure for financial performance.

For remuneration target purposes, and due to the Group's wide range of tax rates and use of capital, adjusted operating profit is further reduced to a post tax basis and by a charge on capital.

Source: Adjusted operating profit is reported in note 4 of the audited Financial Statements.

Adjusted operating profit (million)

Year	Value
11	2,415
10	2,390
09	1,857

Target for 2012

To generate operating profit that substantially exceeds tax charges and the cost of capital employed.

Adjusted basic earnings per share (EPS)

EPS is an industry standard determining corporate profitability for shareholders. EPS is adjusted to better reflect the performance of the business. 2011 saw growth in our EPS despite the challenging economic conditions during the year.

This measure of performance is calculated as profit before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements for the year, attributable to equity shareholders of the parent company, divided by the weighted average number of shares in issue during the year.

Source: The measure of adjusted basic EPS is reported in note 11 of the audited Financial Statements

Adjusted basic earnings per share (pence)

Year	Value
11	25.8
10	25.2
09	21.7

Target for 2012

To deliver real growth in adjusted EPS over successive three-year periods. This measure is used as one of the performance conditions in the Long Term Incentive Scheme, outlined on pages 55 and 56.

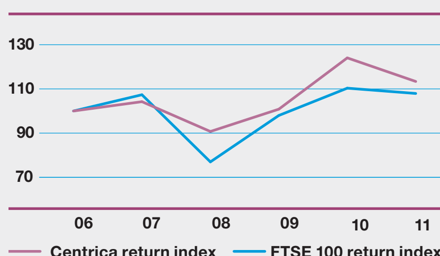
Total shareholder return (TSR)

The Board continues to believe that TSR is a valuable KPI to assess the Company's performance in the delivery of shareholder value. Centrica has outperformed the FTSE 100 Index by 5% over the previous five years.

Total shareholder return measures the return to shareholders in terms of the growth of a £100 investment in the Company's shares, assuming that dividends and returns of capital are reinvested. We compare our TSR with those of the other 99 members of the FTSE 100.

Source: Althos Limited, 31 December 2006 = 100.

Total shareholder return indices – Centrica and FTSE 100 Index for the five years ended 31 December 2011



Target for 2012

To deliver improved levels of relative TSR as a measure of performance over successive three-year periods. This measure is used as one of the performance conditions in the Long Term Incentive Scheme outlined on pages 55 and 56.

Dividends per share

Dividends per share indicate the level of earnings distributed to Centrica shareholders. The 2011 dividend shows an increase of 8% on the 2010 dividend.

This is the total dividend per share (excluding special dividends) paid in respect of each financial year.

Source: The dividend is reported on the Group Income Statement, part of the audited Financial Statements.

Ordinary dividend (pence)

Year	Value
11	15.4
10	14.3
09	12.8

Target for 2012

To deliver real growth each year. Dividends paid contribute to relative TSR as utilised as a measure of performance over successive three-year periods in the Long Term Incentive Scheme, outlined on pages 55 and 56.

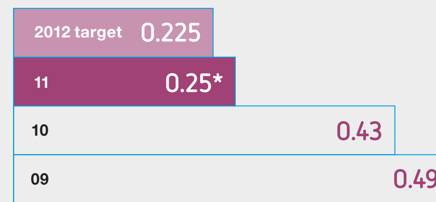
NON-FINANCIAL

Lost time injury rate (LTIR)

Safety is the top priority for Centrica as we believe that all work-related injuries and process safety incidents can be prevented. We want to develop a culture where all safety risks are tackled with a determination to improve performance, people look out for each other and we share learnings and successes. Initiatives across the Group led to a reduction in our LTIR per 100,000 hours worked in 2011 to 0.25. Pursuing a best practice safety culture we broadened the scope of LTIR to include third-party managed individuals.

A lost time injury is defined as an incident arising out of Centrica's operations which leads to an injury where the employee or contractor is not available to work for one day or more, excluding the day that the injury occurred.
Source: Internal data collection.

LTIR per 100,000 hours worked



*2011 figure includes third-party managed contractors for the first time and is not directly comparable with 2010 data

Target for 2012

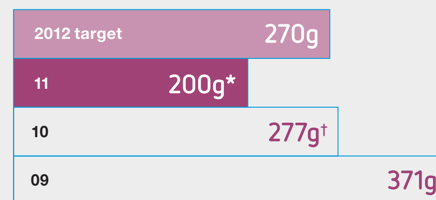
LTIR and process safety feature as measures of performance over successive three-year periods in the Long Term Incentive Scheme outlined on pages 55 and 56.

Carbon intensity

We continued to reduce the carbon intensity of our UK power generation fleet in 2011, achieving 200g CO_2/kWh. This reduction is mainly attributable to a full 12-month offtake in nuclear power from our 20% stake in EDF Energy Nuclear Generation (formerly British Energy) and the effect of placing a number of gas-fired power stations into preservation mode for periods of the year. Our global carbon intensity reduced to 221g CO_2/kWh in 2011.

Carbon intensity measures the amount of carbon dioxide (CO_2) emitted per unit of electricity generated. Our figures are based on average annual emissions from all wholly owned or partially owned UK power generation assets and all other power generation assets from which Centrica is entitled to output under site-specific contracts.
Source: Based on verified emissions data under the requirements of the EU Emissions Trading Scheme (ETS).

Carbon intensity g CO_2/kWh



* 2011 data subject to final EU ETS verification
† restated to represent 2010 figure verified by EU ETS

Further information on carbon intensity is at www.centrica.com/carbonintensity

Target for 2012

Decarbonising power generation is a critical enabler for other sectors of the economy to meet the UK's CO_2 targets and our strategy is to invest in lower carbon generation, such as high-efficiency gas-fired power stations, nuclear energy and offshore wind farms. This strategic aim is reflected in the objectives of key members of senior management. Strategic objectives feature as a measure in the Annual Incentive Scheme, outlined on pages 55 and 58.

Customer trust

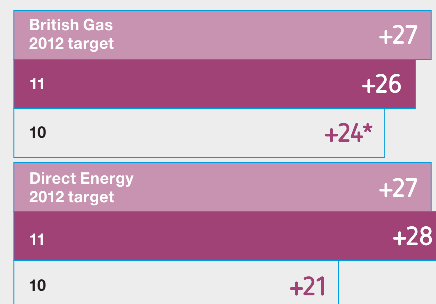
We track our performance using net promoter scores (NPS) for our two customer-facing businesses: British Gas in the UK and Direct Energy in North American markets.

*British Gas NPS calculation methodology and scope has altered in 2011, 2010 data has been restated at the new scope. NPS improved in 2011 with an annual average score of +26, despite customer concerns around increasing energy prices.

Direct Energy NPS rose to +28, up from +21 in 2010.

The NPS measures customers' responses to the question 'How likely would you be to recommend us (0-10 scale)?' The score is calculated by the percentage of customers defined as promoters (scoring 9-10) minus the percentage defined as detractors (0-6).
Source: Internal calculations combining figures for residential, services and business divisions. Net promoter scores are collected through a combination of customer feedback forms and customer telephone interviews conducted by a third-party supplier.

Net promoter scores



Further information on net promoter scores is at www.centrica.com/nps

For British Gas, a blend of brand and contact NPS has been provided in place of previous brand NPS. This is believed to be more reflective of the actual services that customers experience from British Gas.

Target for 2012

To achieve British Gas NPS of +27 in 2012 and Direct Energy NPS of +27 in 2012.

British Gas NPS and Direct Energy NPS are measures of performance over successive three-year periods in the Long Term Incentive Scheme, outlined on pages 55 and 56.

Employee engagement

We use a Group-wide employee survey to measure engagement and to receive feedback on how we can create a positive and challenging work environment. In 2011, we did not conduct a Group-wide survey but took the opportunity to undertake a strategic review of how we measure employee engagement as a tool to drive business performance. The outputs of this review are being used to inform how we continue to measure engagement in 2012 and beyond, including the delivery of a survey in 2012.

Employee engagement features in the non-financial KPI dashboard and is a measure of performance over successive three-year periods in the Long Term Incentive Scheme, outlined on pages 55 and 61. We aim to have employee engagement scores in the top quartile of the external benchmark of similar companies.

For the year ended 31 December	2011	2010
Adjusted operating profit* (£m)		
Residential energy supply	522	742
Residential services	264	241
Business energy supply and services	219	233
Customer numbers (year end, '000)		
Residential energy customer accounts	15,881	15,978
Residential services product holdings	8,862	8,718
Business energy supply points	999	1,044

DOWNSTREAM UK
BRITISH GAS

Phil Bentley
Managing Director, British Gas

Our vision for British Gas is simple; by deepening our relationships with our customers through value for money, better service and innovation, we aim to be the number one choice for energy and services today, as well as in the smarter homes and businesses of tomorrow.

However, we can't ignore the economic reality we're facing in Britain – household and business budgets are stretched, and, as the long-term wholesale cost of energy prices continue to rise, customers want to know that they are getting a fair deal and the best value for their money.

Trust in the energy industry needs to be rebuilt. Customers want simple tariffs, transparent bills and a fair deal on energy. Responding to this challenge, we announced in November a series of initiatives, making it easier for customers to buy their energy (just two simple tariff types – fixed and variable) and helping customers save money on a better deal.

But we also need an honest conversation about the future of energy in Britain. This means being much clearer about the cost of producing and providing energy to customers' homes, the rising cost of green and social levies, the impact of rising demand in international markets, and the profits and investments the energy industry makes. British Gas is the only energy supplier to include a breakdown of these on customer bills.

British Gas serves around 12 million homes – half the homes in Britain. This is both a strength, and a responsibility. Service excellence is critical and will remain at the heart of all our offers. Our challenge in 2012, as an energy industry, is to continue to work hard to win our customers' trust. We are leading the way – working with our customers to change British Gas for the better.

Full British Gas performance measures in appendix on **pg 132**

DOWNSTREAM UK

British Gas experienced challenging market conditions in 2011. Rising wholesale gas and power prices during the first half of the year necessitated an increase in residential gas and electricity tariffs in August. And although wholesale prices fell at the end of the year, enabling a reduction in residential electricity tariffs in January 2012, the longer-term trends remain upwards. The UK also experienced warmer than normal weather in 2011, compared to exceptionally cold weather in 2010 and the economic environment continues to be challenging, particularly impacting residential services and business energy supply. Against this background, our 2011 performance was good.

In the current economic and political climate it is important that energy suppliers help to build trust in the industry, which is why we launched the 'honest conversation' campaign with customers. As part of a series of industry leading measures we wrote to our customers, highlighting how they could ensure that they were on the best deal with British Gas, and we provide a complete breakdown of costs on our customers' energy bills. These are important measures, coming on top of our commitment not to raise prices throughout the winter for residential customers. We also continue to lead the industry in helping our customers reduce their energy usage and in helping the most vulnerable customers. Our free insulation offer remains available to all our customers and we now have over 700,000 EnergySmart accounts, a product which helps customers monitor their energy usage. Our social spend in the year exceeded the minimum requirement set out by Government. We now have over 500,000 customer accounts on our Essentials tariff and are actively helping vulnerable customers claim the Warm Home Discount, where we have the broadest eligibility criteria of any major supplier.

400,000

Our insulation workforce has now completed 400,000 jobs, achieving growth through organic recruitment and acquisitions

The number of residential energy accounts on supply fell slightly, reducing by 97,000 to 15.9 million. We delivered account growth in the first half of the year. However, the increase in wholesale commodity prices during the first half of the year and rising non-commodity costs led to an increase in our residential gas and electricity tariffs in August, by an average of 18% and 16% respectively. This resulted in an increase in churn in the second half of the year. In January 2012, we were the first of the major energy suppliers to reduce our standard residential electricity tariff. This 5% reduction once again placed us as the cheapest major supplier of electricity, on average, in Britain.

In the competitive energy supply market it is important to remain innovative. Our partnerships with Nectar and Sainsbury's have been highly successful, with over 4 million of our customers now enrolled on the Nectar loyalty programme. These new channels are delivering high value customers, with the Nectar scheme also helping to shape customer behaviour, and more customers are now submitting meter readings online, moving to paperless billing and choosing to pay by Direct Debit. British Gas also appeared top of the best buy league tables for online switching for more weeks in 2011 than any other supplier.

Our online platform is also proving increasingly popular with both energy and services customers. In 2011, over 20 million transactions were carried out online, more than double the number from 2010, with increasing levels of meter readings, payments and Annual Service Visit bookings being submitted online. As well as reducing our cost to serve, this change in customer behaviour is also helping to deepen the customer relationship, enabling greater interaction with the customer. Our levels of customer service also remained high in residential energy supply and we were awarded a 4 star service rating from Consumer Focus for the first time.

In residential services, the number of contract holdings increased by 144,000 to 8.9 million, benefiting from stronger customer retention. However, the challenging economy is creating an adverse climate for major consumer purchases, particularly in our central heating installations business and accordingly, the number of central heating systems installed was 15% lower than 2010. Despite this, we made good progress during the year. The roll-over to insurance-based products is now complete, allowing us to offer a more flexible range of products, while the agreement we reached with our service and repair engineers in 2010 means we are able to meet increased customer demand

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

DOWNSTREAM UK BRITISH GAS

for evening and weekend appointments. This increased engineer flexibility meant that we were able to visit the vast majority of our customers on the day they reported a fault. Maintaining a high quality of customer service is vital and the contact NPS for our services business grew to 55.

In business energy supply, the number of customer supply points reduced by 45,000 over the year, to 1.00 million (2010: 1.04 million). This reflects our volume to value strategy and also the challenging market conditions. Recognising the impact on our customers, we will continue to focus on delivering high levels of service for each of our customer segments, at competitive prices. Our business services division made further progress during the year with the successful integration of the acquired Connaught services team and the average order value on installations up 16% on 2010. Over time, this will allow us to grow a differentiated position in this competitive market.

Health and safety is critical to the success of British Gas and we have a good safety record, with the lost time injury frequency rate (LTIFR) falling by 48% this year and the number of lost time incidents reducing by 35%. We continue to monitor employee engagement closely, and are pleased to see that absence and attrition rates were both substantially lower than in 2010. We were also recognised by the Great Places to Work Institute as one of the 'UK's 50 Best Workplaces', for the third year in a row.

We continue to grow our new markets business, which now has gross revenue of over £250 million, capitalising on our broad range of expertise to take advantage of attractive opportunities. Our insulation workforce has now completed 400,000 jobs, achieving growth through organic recruitment and the acquisitions of Hillserve Ltd and ECL Contracts Ltd in 2010. We have also recently entered into our first affinity partnership in the water sector, with an agreement with Thames Water to promote both energy and water saving products – including solar panels, heat pumps, energy efficient boilers, shower savers and free insulation.

On new technologies, we secured contracts with Nissan, Renault, Toyota and Hitachi Capital to become the preferred partner for home charging solutions for their electric vehicles. We also completed substantially more solar installations for both residential and business customers, with 2,400 installations and 12.8 Megawatts-peak (MWp) installed. With the announcement of a halving of the Feed-in Tariff for solar installations, demand is expected to reduce, although falling panel prices may help ensure that solar continues to be an attractive investment for residential, business and public sector customers. In December we acquired the remaining 81% of Econergy Ltd, a market leader in biomass heating, while we continue to hold positions in a wide range of other technologies, with capabilities in biomethane gas, heat pump installation and fuel cell boilers.

We continue to lead the industry in the roll-out of smart meters, having insourced our metering operations and installed over 450,000 smart meters for homes and businesses to date. However, we await confirmation from Government of the smart meter national implementation programme and from the Regulator regarding its plans for retail market reform, before we proceed to full scale roll-out. Our focus in the social housing sector continues and we now manage a portfolio in excess of 275,000 homes and in 2011 we acquired PH Jones Group Ltd, a provider of central heating services to the social housing market. We are also undertaking work on the Welsh Assembly Government's new fuel poverty programme, in addition to the Scottish Government's Energy Assistance Programme which we won last year. Together, these contracts are expected to generate revenue of over £200 million over the next five years.

£470,000

We are committed to encouraging and enabling our employees to participate in volunteering activities to support their personal development and help build a great place to work.

Employees are entitled to take up to two days of work time per annum to get involved in volunteering activities of their choice.

In addition to volunteering, many employees are also active charity fundraisers and, in September, 34 climbers from British Gas successfully scaled Mount Kilimanjaro raising £134,000 for Make-A-Wish, our 2010-2011 Charity of the Year.

They elected to take one of the more challenging routes up the 19,340-foot (5,895 metre) mountain and completed the task within seven days by trekking for over 10 hours on the final approach to ensure they reached the summit.

The group – which included British Gas Managing Director Phil Bentley – overcame a number of challenges during the week, not least the range of temperatures and climatic zones they encountered, but also the possibility of altitude sickness. Climbers were randomly selected from across the business, with each required to raise a minimum of £2,500 to participate in the challenge.

By the end of the partnership, more than £470,000 was raised by British Gas employees in support of children and young people fighting life-threatening conditions.

Read more @ **www.britishgas.co.uk**

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Overall, gross revenue in the period fell to £12,319 million (2010: £12,730 million), with higher average retail tariffs for both residential and business energy being more than offset by lower gas and electricity consumption. Operating profit* for residential energy supply fell by 30% and for the operating segment as a whole decreased by 17% to £1,005 million (2010: £1,216 million).

Residential energy supply operating profit* decreased 30% to £522 million (2010: £742 million) and operating margin fell to 6.4% (2010: 8.9%), as the favourable combination of extremely cold weather and low commodity costs in 2010 reversed. Average gas consumption reduced by 21% and average electricity consumption reduced by 4% due to the warmer weather and as energy efficiency measures continue to deliver underlying reductions. Gross revenue decreased to £8,113 million (2010: £8,359 million), reflecting the decline in consumption. Consequently, despite the increase in retail tariffs implemented in August, the average customer bill fell by 4%. In these current market conditions it is important that we focus on reducing our cost base and as a result of improved processes and close management attention, our bad debt charge fell 26% compared to 2010.

Residential services operating profit* increased by 10% to £264 million (2010: £241 million) with the operating margin increasing to 17.6% (2010: 16.5%) in a challenging economic environment, which requires us to remain closely focused on driving cost efficiencies in the business.

During the first half of the year, warmer weather resulted in reduced breakdown call out costs compared to the first half of 2010, but we incurred additional costs to complete annual service visits deferred from the prior year, as we had prioritised our workload during the cold weather in late 2010. Gross revenue rose by 3% to £1,504 million (2010: £1,464 million) reflecting a slight increase in the average number of customers and average prices.

Business energy supply and services operating profit* fell by 6% to £219 million (2010: £233 million) while gross revenue fell by 7% to £2,702 million (2010: £2,907 million), reflecting the impact of much warmer weather and the economic environment, partially offset by credits arising from improved revenue and billing processes. As a result, the operating margin remained broadly flat at 8.1% (2010: 8.0%).

OUTLOOK

Our business model remains strong and British Gas delivered a solid financial performance in 2011 in challenging market conditions, underpinned by our scale, our service and our drive for innovation. In residential energy supply, it is critical to maintain a competitive advantage, underpinning our ability to achieve sustained profit. In services, we aim to deliver double digit profit growth, even in an environment of low economic growth, achieving this through cost efficiencies, attractive customer propositions and excellent levels of service. In business energy supply trading conditions remain tough, although operational improvements, opportunities in B2B services and investment for the next phase of growth will leave the business well placed for the long term.

As part of the Group-wide programme to sharpen the business and reduce costs, we are targeting substantial cost reductions in British Gas, with absolute underlying operating costs expected to reduce by 10% over the next two years. We have already announced some 1,800 role reductions across the business, while maintaining our frontline capability and high levels of customer service. We have announced the cessation of our field sales activities, and the scaling down of our solar business. In addition, we have reached agreement with our employees and Trade Unions on restructuring pension benefits and have implemented a pay freeze across the whole of British Gas. These measures will help the business to remain competitive, while also enabling investment for future growth.

WINNING

Having won 'European Contact Centre of the Year' for two years running our Cardiff office won silver in the large contact centre category of the 2011 World Contact Centre Awards

1.25P PER MILE

We secured contracts with Nissan, Renault, Toyota and Hitachi Capital to become the preferred partner for home charging solutions for their electric vehicles

For the year ended 31 December	2011	2010
Adjusted operating profit* (£m)		
Gas	769	566
Power	254	205
Gas and power		
Gas production (mmth)	2,160	2,550
Liquids production (mmboe)	12.5	11.8
Proven and probable reserves (mmboe)	440	434
Power generated (TWh)	26.7	32.9

UPSTREAM UK
CENTRICA ENERGY

centrica energy

Mark Hanafin
Managing Director, Centrica Energy

Centrica Energy's mission is to secure the UK's energy needs, making sure the country has warm, well-lit homes, factories and offices at the same time as generating attractive returns for the Group.

As we look to the future, we see considerable potential to deliver further growth and value. There are opportunities both in upstream gas, building on the Norwegian transaction we announced in late 2011, and in power generation, with offshore wind, nuclear and biomass.

Various major international events affected the energy industry in 2011, reminding us that we now operate in a truly global market. In my view, it is one in which gas has a pivotal role to play for many years to come.

Against this backdrop, we see tremendous opportunity for our upstream business: a market in which we are well positioned, with distinctive capabilities and a strong portfolio of asset options. Our objective is to increase production by 50% to around 75mmboe over the next three to five years by strengthening our existing portfolio through greater geographic diversity. In power generation the landscape is changing but supportive of our strategy to invest in low carbon technologies.

We expect to invest a billion pounds on our power business over the next four years, with the main focus on wind farm generation. But we have investment options in all areas of generation, giving us the ability to pursue those options that offer the best returns, aligned with UK Government energy policy.

Centrica Energy continues to make excellent progress, consistently delivering on its strategy over the last two years with a business that is well-balanced between gas and oil production, and power generation. Whilst our immediate focus is on maximising returns from our existing assets and investment programme, we also see considerable potential for further growth and value over the medium term. We aim to enlarge significantly the scale of our activities, adding further gas production assets and offshore wind capacity and evaluating options in biomass and new nuclear.

▶ Full Centrica Energy performance measures in appendix on **pg 134**

UPSTREAM UK

Centrica Energy delivered a significant increase in operating profit* in 2011, up 33% to £1,023 million (2010: £771 million). The impact of higher wholesale commodity prices and good asset performance more than offset the effect of difficult market conditions for our CCGT fleet, resulting in impairment charges being recorded, as described in the Group Financial Review on page 26. The business also made a strong contribution to both Group earnings and cash flow, despite the increase in supplementary corporation tax (SCT) during the year.

We continue to see attractive returns upstream and invested over £600 million in our upstream gas and oil business during 2011. We also invested £300 million in our power business, the majority in our Lincs offshore wind farm. Health and safety remains of paramount importance, and we continued to invest in the reliability and safety of our gas and power assets.

GAS

Total gas production volumes reduced by 15% to 2,160 million therms (mmth) (2010: 2,550mmth), with gas volumes from Morecambe down by 41% to 817mmth (2010: 1,381mmth), reflecting the natural decline of the field and the decisions to shut-in South Morecambe for commercial reasons more often than in 2010. Gas production from other fields increased by 15% to 1,343mmth (2010: 1,169mmth) and oil and condensate volumes increased by 6% to 12.5mmboe (2010: 11.8mmboe) with strong performance from existing assets, such as Grove and Chiswick, and incremental production from new fields and our enlarged stake in Statfjord.

Upstream gas and oil is an attractive area in which to deploy capital. During 2011 we produced first volumes from F3-FA and the Goosander Crestal well, while the non-operated Babbage field is now fully operational. Our Ensign project is expected to produce first gas in the first half of 2012, with first gas from Seven Seas expected in mid-2012. We are targeting first gas from

50 BCM

We signed a strategic agreement with Statoil which begins in 2015 and will supply 50 billion cubic metres of gas to the UK over 10 years, enough for 3.5 million homes

our Rhyl and Atla projects in the second half of 2012, with first gas from the York project in early 2013. These five developments combined are expected to bring around 50mmboe of reserves into production. Development of the Valemon field, in which we are acquiring an interest as part of the Statoil transaction, is on track with first gas anticipated towards the end of 2014.

On the Cygnus development, where our share of reserves is 51mmboe, we are working closely with the operator, GdF Suez, to optimise the development plan for the field. Subject to acceptable returns we expect to make a final investment decision around the middle of 2012. We are progressing development of the Kew field and also expect to make final investment decisions on the Annabel East and Olympus developments in 2012. Combined, these three fields are expected to bring around 20mmboe into production.

Our drilling programme delivered good results once again in 2011. We successfully drilled production wells at Chestnut, F3-FA and Goosander. There were also successes at the non-operated North West Seymour field and two wells at the West Brae field. However, one of the wells at Ensign failed, and will be re-drilled following completion of our other planned Ensign development wells. We had exploration discoveries at the Pegasus prospect in the UK North Sea and the Butch discovery in Norway, both operated by Centrica. However we were unsuccessful with our drilling at the Whitethroat prospect in the UK North Sea.

We added 54mmboe of proven and probable reserves during 2011 primarily due to upgrades of producing fields, such as Grove and Chiswick and bringing new fields, such as Maria, into the development pipeline. After taking account of production during the year, our production replacement ratio was 112% and we ended the year with total reserves of 440mmboe.

The average achieved gas sales price, net of the impact of hedging, increased by 24% to 51.6 pence per therm (p/th) (2010: 41.6p/th), reflecting higher wholesale UK gas prices. The achieved price also reflects production from our activities in Trinidad and Tobago, for which prices are linked to Henry Hub. The average achieved oil and condensate price, net of the impact of hedging, increased by 22% to £57.2 per barrel of oil equivalent (boe) (2010: £46.8/boe), reflecting higher worldwide oil prices. Production costs increased by 15% to £1,127 million (2010: £980 million) reflecting inflationary cost increases, new gas and oil fields coming into production and the full-year impact of the acquisitions of an additional stake in Statfjord and some Trinidad and Tobago assets in the second half of 2010. On a per unit of production basis, lifting costs increased to £9.9/boe (2010: £6.6/boe) while depreciation, depletion and amortisation (DDA) costs increased to £10.1/boe (2010: £8.9/boe), reflecting a reduced proportion of low cost Morecambe production in the mix.

In February we entered into a Memorandum of Understanding (MOU) with Qatargas, leading to a three-year contract for the delivery of 2.4 million tonnes of LNG per annum, and in December we signed an MOU with Qatar Petroleum International to examine other joint energy-related investment opportunities. In June we took delivery of our first cargo under the Qatargas contract. In November, alongside the acquisition of a package of

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Business Review

UPSTREAM UK
CENTRICA ENERGY

assets, we signed a new 10-year, NBP-linked gas supply contract with Statoil. The 5 billion cubic metres per annum gas supply contract starts in October 2015 and will replace the existing supply contract with Statoil. In addition we also signed an MOU with Statoil to consider partnering on gas focused exploration opportunities in Norway and the UK.

Overall operating profit* for the gas segment increased by 36% to £769 million (2010: £566 million) with higher achieved prices more than offsetting the impact of reduced gas volumes and higher production costs.

POWER

Strong performance from our share of nuclear assets more than offset the impact of weak market conditions for our gas-fired power stations. Our share of nuclear output increased by 16% to 11.2 terawatt hours (TWh) (2010: 9.7TWh), with fewer unplanned outages during the year. Our average achieved nuclear power price, net of the impact of hedging, increased by 13% to £48.5 per megawatt hour (MWh) (2010: £42.9/MWh) reflecting the impact of higher baseload market power prices. As a result of the higher volumes and higher achieved price, nuclear profitability* was much improved compared to 2010.

Our wind assets again benefited from availability of over 90%, and with weather conditions generally more favourable than in 2010, generated volumes increased by 21% to 596 gigawatt hours (GWh) (2010: 493GWh), with the load factor improving to 36% (2010: 29%). The construction of the 270MW Lincs wind farm project is proceeding to schedule, although unfavourable weather conditions at the end of 2011 and early in 2012 delayed installation of the foundations. 48 out of 75 foundations are now complete, while the offshore substation has been installed and commissioning is ongoing. Lincs is expected to generate first power in the second half of 2012 and is expected to be fully operational in the first half of 2013.

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Weak market conditions for our gas-fired CCGT fleet resulted in a 34% reduction in generation volume to 15.0TWh (2010: 22.8TWh) and a lower load factor of 35% (2010: 56%). The average spark spread achieved fell to £10.1/MWh (2010: £11.6/MWh) but was still well above the average baseload market spread, reflecting volumes sold at peak times. Plant reliability remained high at 98% (2010: 97%). As a result of the weak market conditions we are in the process of restructuring our CCGT portfolio and are proposing to close two of our plants, at Barry and Kings Lynn, with a total capacity of 555MW. Our plants at Peterborough, Brigg and Roosecote are now configured to run more flexibly and operate in the Short Term Operating Reserve (STOR) market, resulting in lower operating costs.

Overall operating profit* for the power segment increased by 24% to £254 million (2010: £205 million) with higher volumes and achieved prices from our nuclear and wind assets more than offsetting the impact of lower gas-fired generation volumes.

OUTLOOK

Further increases in wholesale gas and power prices would be positive for our upstream gas and oil, nuclear and wind businesses, although market conditions for our gas-fired generation assets are likely to remain challenging and load factors are expected to remain low. In addition, the business will face a full-year's impact from the higher upstream gas and oil taxes in 2012.

Production of both gas and liquids is expected to increase by over 25% in 2012 following the acquisitions of a package of assets in the Norwegian North Sea from Statoil, announced in November, an additional stake in the Statfjord field, announced in January 2012 and a package of UK North Sea assets from Total, announced in February 2012. The Statoil and Statfjord transactions are expected to close in May 2012, with the Total transaction expected to close in July 2012 and in aggregate these three acquisitions are expected to add around 13mmboe of gas and liquids production in 2012.

We will continue to invest in the upstream business where we see value. The focus will remain on growing our upstream gas and oil business, through acquisition and organic development, and on expanding the scale of our offshore wind operations. We expect to make a final investment decision on the Cygnus gas development around the middle of 2012, subject to suitable returns, with a final investment decision expected on the Race Bank offshore wind farm around the end of the year. We also retain further investment options – in new nuclear build, biomass and new build CCGT. With all of our investment options, we will only proceed if appropriate returns are achievable.

CE WAY

In 2010, we launched 'The CE Way', a programme for all employees focusing on the way we want our business to be run, the way we want people to act and the way we want it to feel working for Centrica Energy. It is composed of three ways – high performance, pioneering spirit and safety.

Building on the successful introduction, we focused on embedding the CE Way during 2011 and in helping our people bring it to life and make sense of it.

One of the most successful interventions of 2011, were the CE Way Labs. These were highly interactive events designed to equip 250 of our people leaders with skills, insights and knowledge to help them create team environments where high performance, pioneering spirit and safety are inevitable. Not only did the people leaders attend workshops at these labs but they also had a chance to experiment with what they learnt.

Read more @ **www.centricaenergy.com**

For the year ended 31 December	2011	2010
Average SBU price (in period, pence)	30.0	42.1
Gross revenue (£m)	184	267
Cost of gas (£m)	19	15
Operating profit* (£m)	75	169

STORAGE UK
CENTRICA STORAGE

Grant Dawson
Chairman, Centrica Storage

The Centrica Storage vision is to become the leading multi-asset, multi-product gas storage business in the UK.

With the UK increasingly dependent on imported gas, increasing the country's gas storage capacity remains key to ensuring security of supply for businesses and homes. This remains the case despite limited usage through the winter of 2011/12 due to warm weather.

We are making good progress towards our market-leading vision and our two new storage projects – at Baird and Caythorpe – have both completed their engineering design phase. The economic viability of both projects remains critical and we will continue to review market conditions.

Gas storage prices, as reflected in standard bundled unit (SBU) prices, remained low in 2011 with the differential between summer and winter gas prices narrower than in recent years. This challenges the economics of new storage construction and has reduced the profitability of our existing storage facilities. We will maintain financial discipline, only making the required investments when there are attractive commercial opportunities. Should the market fail to provide the necessary investment signals, as we progress these projects towards a final investment decision, we will discuss the market mechanisms required with the UK Government to support investment in increased storage build.

The Rough storage field continues to provide more than 70% of UK gas storage and remains a critical national asset. We will need to continue to invest significant sums of money to protect the long-term future of the field – it remains a key part of the Group's integrated energy business.

During 2012, we will continue to strengthen our business across all areas, in preparation for a multi-asset storage future. It will be a year when we focus on driving efficiency and improving underlying business processes.

Full Centrica Storage performance measures in appendix on **pg 134**

STORAGE UK
CENTRICA STORAGE

STORAGE UK

Centrica Storage faced difficult trading conditions in 2011, with the differential between summer and winter gas prices remaining narrow for much of the year reflecting an increasing amount of LNG coming to the UK during the winter months.

The Rough asset continued to perform well, with reliability of 96% (2010: 98%) impacted by a small number of disruptions at the Easington terminal in January and essential offshore maintenance work on the asset in June. Warmer weather in the first quarter of the year meant that injection started earlier than usual and further mild weather throughout spring and summer resulted in Rough reaching a record Net Reservoir Volume (NRV) of 132 billion cubic feet (BCF) early in the fourth quarter. Health and safety remains our top priority and during the year we undertook a number of process safety related initiatives, with further work planned in 2012.

Gross revenue fell by 31% to £184 million (2010: £267 million). The narrowing of seasonal spreads resulted in an average SBU price of 30.0 pence (2010: 42.1 pence). In addition, revenue from optimisation and additional space sales was lower, again reflecting the narrowing of seasonal spreads, as well as reduced market volatility. After taking account of higher fuel-gas costs, higher depreciation resulting from previous investment in Rough and inflationary cost increases, operating profit* fell by 56% to £75 million (2010: £169 million).

We have taken the decision to terminate our Bains storage project, following a review of the results of 3D seismic survey data which indicated that the reservoir would not be sufficiently attractive to convert into a storage facility. Centrica Energy now plan to return the field to production, with work expected to commence in the first half of 2012.

We continue to assess our Baird storage project, which remains an attractive investment option subject to an improvement in market conditions. Our Caythorpe fast-cycle project remains on hold and we will continue to monitor market conditions going forward.

In April, the Competition Commission published its final decision on our request for a review of the Undertakings given to the Secretary of State following the acquisition of Rough. A number of variations have been agreed to the Undertakings to reflect the changes in the market, including an increase in the proportion of capacity that Centrica is allowed to acquire for its own use to 25% (from 15%). We expect to sign the revised Undertakings shortly.

While the seasonal spread for the 2012/13 storage year showed some improvement over the fourth quarter of 2011, the forward curve further out indicates that spreads are expected to remain tight for the medium term. With the UK importing an increasing proportion of its gas requirements, there is a general recognition that the UK is in need of further storage capacity; however, we will only invest in new projects if returns are appropriate for the level of risk undertaken.

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

300 HRS

In 2011 Centrica Storage employees provided more than 300 hours of volunteering support to the communities in which we operate.

In partnership with the Marine Conservation Society's (MCS) Adopt-a-Beach Scheme, we adopted Easington beach which stretches in front of our Easington terminal. Employees spent more than 50 hours collecting and disposing of rubbish on the beach, not only making it a much better place for visitors, but they also provided vital information by recording what was found to assist MCS with tackling marine pollution.

Time was also spent helping the South Holderness Countryside Society (SHCS) restore Ivy House in Hollym in Yorkshire near to Easington. The SHCS are working to turn Ivy House and its land into a nature reserve for visitors and school children. Activities that our people have helped with include removal of building rubble, cabling for an IT room, carpentry and painting. Centrica Storage apprentices and electrical technicians have also helped to rewire Ivy House.

Read more @ **www.centrica-sl.co.uk**

70%

The Rough storage field continues to provide more than 70% of UK gas storage and remains a critical national asset

For the year ended 31 December	2011	2010
Adjusted operating profit* (£m)	312	234
Residential customer accounts (year end, '000)	3,364	2,855
Proven and probable reserves (year end, mmboe)	109	96

NORTH AMERICA
DIRECT ENERGY

Chris Weston
Managing Director, North America

Our strategic priority is to build an integrated North American business with leading positions in deregulated markets; our ambition is to become the most recommended energy and services provider.

We are pursuing several growth areas: further acquisitions upstream and downstream, additional market entries for our retail supply business, growing our current market share in energy and services, and additional cross-selling opportunities between the energy and services businesses.

Natural gas will continue to play an important role in North America; gas production is 26 trillion cubic feet per annum with shale gas already driving more than 20% of domestic production and expected to continue to grow. There is growth in domestic demand, largely from power generation, but current low prices for gas could create new sources of demand as customers switch fuels for appliances and vehicles, and as commercial customers reinvest in manufacturing.

Our Clockwork acquisition has been transformational; we are now the largest services business in North America, with 3 million residential and business customer relationships.

We see opportunities to convert these customers to protection plan or contract customers and to build our cross-sell proposition and customer base.

We continue to pursue value creating opportunities in both power generation and upstream gas, as we did with our recent Wildcat Hills and Carrot Creek asset acquisitions. Vertical integration is a key source of value in North America, as it is in the UK, and we have seen how it can drive good results, as it did during the extreme weather we experienced in the US last year.

In summary, we're making good progress across all of our lines of business, we're driving organic improvements to deliver efficiencies, and we have established a strong financial track record. We're well-placed to grow organically, building on our existing base and strong market positions.

Full Direct Energy performance measures in appendix on **pg 135**

NORTH AMERICA DIRECT ENERGY

NORTH AMERICA

Direct Energy achieved strong growth in operating profit* in 2011, benefiting from operational improvements and cost efficiencies, both upstream and downstream, and the impact of acquisitions. This improvement came despite more challenging market conditions for the retail energy supply business and continued low gas and power prices in our core geographies.

Gross revenue increased slightly to £6,117 million (2010: £5,997 million) as the impact of lower wholesale energy prices was more than offset by customer growth in residential energy supply and higher volumes in both business energy supply and upstream and wholesale energy. Operating profit* increased by 33% to £312 million (2010: £234 million), with stronger performance from our business energy supply, residential and business services and upstream and wholesale energy divisions. The impact of currency movements on the reported results was not significant in 2011.

RESIDENTIAL ENERGY SUPPLY

Direct Energy Residential delivered a good performance in a consolidating competitive landscape, with less favourable market conditions and more extreme weather than in 2010. The total number of customer accounts increased by 18% over the year further building on our leading position in competitive markets in North America, as we significantly expanded the scale of the business through acquisitions and organic growth. We made three acquisitions in residential energy supply in 2011, Gateway Energy Services, First Choice Power and Vectren Retail. These transactions added over 750,000 customer accounts and built on a successful strategy of acquiring smaller suppliers, increasing our market share in deregulated markets, leveraging our existing systems and removing costs.

In the US North East, the acquisitions of Gateway in the first half of the year and Vectren Retail in December have contributed to an almost doubling of the size of our customer base, enhancing our scale in the key states of New York and Ohio, and further consolidating our top three market position in this important region. Our investment in the US North East is delivering returns well in excess of our cost of capital.

The Texas business performed well despite price spikes during extremely cold weather in February and the hottest August on record. After taking account of higher prices and load factors achieved in our upstream power business, profitability* in Texas was not materially impacted by the weather. Our transformation programme has simplified our systems and platforms and is delivering real results. We are making more efficient use of sales channels, our consolidated billing platform and prepaid offering are helping to reduce bad debt and operating costs, and we have improved levels of customer satisfaction and reduced customer churn. Our enhanced segmentation approach has also contributed to improved returns in Texas and we are expanding this approach to our other markets. In addition, the acquisition of First Choice Power, which added 220,000 customer accounts, further strengthens our position as the third largest energy retailer in the state.

In Ontario, the market structure is no longer conducive to competition and has been made even more challenging by the Energy Consumer Protection Act, which makes it substantially more difficult to acquire and retain customers. As expected, the number of customer accounts in the province has fallen significantly and we continue to aggressively manage our cost base in the region, in order to minimise the impact. Although we expect our customer base and profit* to continue to reduce in Ontario as a result, over time we expect this to be offset by growth in the US North East and Texas.

Gross revenue fell by 3% to £2,416 million (2010: £2,502 million) reflecting lower average retail tariffs. Operating profit* fell by 9% to £161 million (2010: £177 million), reflecting the less favourable market conditions, particularly in Ontario, and the spikes in Texas power prices. These impacts were partially offset by US customer growth and operational efficiencies across all core geographies. Operating margin fell slightly to 6.7% (2010: 7.1%).

BUSINESS ENERGY SUPPLY

Direct Energy Business had another strong year with further volume growth and sustained margins. Electricity volumes increased by 17% to 46.4TWh (2010: 39.7TWh) reflecting high sales productivity, the targeting of key customer segments and high levels of customer service, further consolidating our position as the third largest business energy supplier in North America. During the year we also established ourselves as a leading channel partner in KEMA's 2011 annual broker satisfaction survey.

Competition in this segment is intensifying, as competitors continue their pursuit of vertical integration and increasingly focus on the small business segment. Our established position and expertise in this area leaves the business well placed. In addition, we continued to focus on operational and scale efficiencies.

Gross revenue increased by 2.5% to £2,748 million (2010: £2,682 million) as volume growth offset the impact of the lower commodity price environment. Operating

36% UP

Power generation volumes at our three Energy Centers in Texas increased by 36% to 5,247GWh with improved asset availability and optimisation performance

* Including share of joint ventures and associates stated gross of interest and taxation, and before other costs and depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

margin improved to 4.0% (2010: 3.3%) reflecting operational improvements and the benefits of scale, while operating profit* increased by 25% to £110 million (2010: £88 million).

RESIDENTIAL AND BUSINESS SERVICES

The integration of Clockwork is complete and the business is positioning itself to grow in the highly fragmented North American services market, through expansion of the franchise network and further penetration of the largest metropolitan areas. The announcement in November of the acquisition of the home services protection plan business, Home Warranty of America (HWA), provides a further platform for growth and enhances our ability to cross-sell energy and services. HWA is one of the few home warranty providers with the necessary licences to operate across the United States and the acquisition will allow Direct Energy to build an extensive protection plan business, complementing Clockwork's current nationwide on-demand offering.

Overall, the number of customer accounts was broadly flat, with the number of installations and on-demand jobs up materially, largely as a result of the full-year impact of the Clockwork acquisition. In Canada, we continued to improve retention in our water heater customer base and drive broader cost efficiencies in a challenging market environment. Although weak economic conditions in North America and a slow housing market have continued to impact our business, including our legacy new construction business in the United States, customer satisfaction remained high, with an NPS of 58, and customer retention remained strong.

Gross revenue increased by 7% to £520 million (2010: £485 million) and operating profit* nearly doubled to £28 million (2010: £15 million), mainly as a result of a full-year's impact from the Clockwork acquisition in July 2010 and cost efficiencies, partially offset by the impact of the continued weak housing market and the removal of some energy efficiency tax incentives.

UPSTREAM AND WHOLESALE ENERGY

Profitability* in our Direct Energy Upstream business improved significantly compared to 2010, despite the impact of low natural gas prices. This improvement was driven by a full-year's contribution from the Wildcat Hills assets in Alberta and improved power asset performance in Texas, particularly during the price spikes in February and August.

Gas production volumes increased by 39% to 567mmth (2010: 409mmth) while unit costs fell by 10%, reflecting the impact of the Wildcat Hills acquisition, completed in 2010, with a subsequent interest acquired in March 2011. Our North America 2P reserves increased by 14% over the year, reflecting this acquisition and operational improvements. We have also now completed the acquisition of a package of liquids-rich natural gas assets in the Carrot Creek region of Alberta.

Power generation volumes increased by 36% to 5,247GWh (2010: 3,851GWh), with improved asset availability and optimisation performance allowing the upstream business to benefit from the spikes in power prices experienced during the extremely cold weather in February and during the record high temperatures in August. As a result, the power generation business broke-even in 2011.

Overall, the upstream and wholesale division made an operating profit* of £13 million (2010: operating loss* of £46 million) reflecting improved performance from both our gas and power businesses.

OUTLOOK

The outlook for Direct Energy remains positive. Our residential energy supply business is making good progress in Texas and the US North East, although a mild winter may affect first half profitability, while the unfavourable market conditions in Ontario will continue to impact both our business and residential energy supply activities in the region. We will continue to pursue our successful strategy of acquiring energy retailers, to deliver cost synergies and scale, while at the same time improving the efficiency of our operations. We expect continued growth in both our business energy supply and services divisions, although both are significantly affected by the strength of the US economic recovery.

132,716

During 'Walktober', 1,752 employees walked 132,716 miles as part of the Wellbeing programme launched in 2011.

The programme offers a broad range of wellness services to all employees in North America. The goal is to help them improve their health and fitness, create a stronger link with field employees, involve families and make a lasting and beneficial difference in workplace culture.

Read more @ **www.directenergy.com**

In services, we will use the platform created by Clockwork and HWA to drive organic growth and over time increasingly cross-sell to our energy customer base.

Our upstream business continues to be impacted by low gas prices in Alberta and spark spreads in Texas. With shale gas in plentiful supply, gas prices are expected to remain low across North America. In power generation, the outlook for Texas spreads will depend on the outlook for reserve margins, which was lowered last year by ERCOT, and to a certain extent on the impact of United States Environmental Protection Agency (EPA) legislation on regional power markets. The benefits of vertical integration were clearly seen during 2011, as the business coped well during periods of high power prices in Texas. We continue to seek opportunities in both upstream gas and power, subject to investments delivering appropriate returns.

We also continue to drive organic improvements across the business, streamlining our operations to create an improved, cost-efficient organisation, while seeking investment opportunities both downstream and upstream for further growth. We have therefore announced the relocation of our North American head office from Toronto to Houston, to enable us to focus more attention on our growth opportunities, in Texas and the US North East.

GROUP FINANCIAL REVIEW

FINANCIAL DISCIPLINE TO SUPPORT OUR STRATEGY

Nick Luff
Group Finance Director

Group revenue from continuing operations was up 2% to £22.8 billion (2010: £22.4 billion). Despite higher wholesale gas and electricity prices, revenue decreased in the Downstream UK segment as warmer than normal weather resulted in lower energy consumption. Revenue increased in the Upstream UK segment, reflecting the higher commodity prices. In North America revenue was broadly flat, as higher average customer numbers and total business energy consumption offset lower wholesale energy prices.

Total adjusted operating profit* was up 1% to £2,415 million (2010: £2,390 million) as increases in Upstream UK and North America profitability* more than offset lower Downstream UK and Storage UK profitability*. In Downstream UK, despite growth in residential services profitability*, higher gas, electricity and non-commodity costs, and lower consumption in energy supply resulted in a reduction in profitability. In Upstream UK, higher gas, oil and power prices, strong nuclear output and increased oil volumes more than offset the impact of lower gas volumes, higher unit gas and oil production costs and reduced gas-fired power generation volumes. In North America, higher volumes and sustained margins in business energy supply, the full year impact of the 2010 acquisition of Clockwork Energy Services in residential and business services and a positive contribution from higher gas and power volumes in the upstream and wholesale business led to higher profitability*, although less favourable market conditions in Ontario resulted in lower residential energy supply profitability*.

Group profit^Ω on a continuing basis was up 3% to £1,252 million (2010: £1,221 million). This reflects the increased Group operating profit^Ω and lower interest charges, largely offset by an increased tax expense. Net interest cost was £146 million (2010: £265 million), reflecting the lower level of average gross debt in the year and early debt repayments in the second half of 2010. The taxation charge was £810 million (2010: £708 million), reflecting a higher mix of more heavily taxed Upstream UK gas operating profit* and the increase in the UK supplementary corporation tax (SCT) rate from 20% to 32% from March. The adjusted tax charge from continuing operations was £891 million (2010: £761 million) and the resultant adjusted effective tax rate^ for the Group was 40% (2010: 37%). An effective tax rate calculation is shown on the table on page 28.

Reflecting all of the above, adjusted earnings◊ increased by 3% to £1,333 million (2010: £1,297 million) while adjusted basic earnings per share (EPS)◊ increased to 25.8 pence (2010: 25.2 pence).

Business Review

The statutory profit for the year was £421 million (2010: £1,942 million). The reconciling items between Group profit[Ω] and the statutory profit are related to exceptional items, certain re-measurements and discontinued operations. The decrease compared with 2010 was principally due to the effect of a net exceptional charge from continuing operations after taxation of £466 million (2010: net charge of £165 million) and a net loss on certain re-measurements of £322 million (2010: net gain of £891 million). The Group reported a statutory basic EPS of 8.2 pence, down from 37.6 pence in 2010.

In addition to the interim dividend of 4.29 pence per share, we propose a final dividend of 11.11 pence, giving a total ordinary dividend of 15.4 pence for the year (2010: 14.3 pence), an increase of 8%.

Group operating cash flow from continuing operations before movements in working capital was slightly higher at £3,065 million (2010: £3,010 million). After working capital adjustments, tax, operational interest, and cash flows associated with exceptional charges and discontinued operations, this stood at £2,337 million (2010: £2,428 million), mainly due to higher petroleum revenue tax payments.

The net cash outflow from investing activities was £1,400 million (2010: £1,584 million), as described in the business combinations and capital expenditure section on page 28. The 2010 comparative included higher cash out flows on acquisitions.

The net cash outflow from financing activities was £907 million (2010: £1,677 million). This reduction reflects the net cash outflow of £684 million from the repayment of debt during 2010.

The Group's net debt level at 31 December 2011 was £3,435 million (2010: £3,312 million), reflecting the increase in taxes paid, movement in working capital and other cash flows described above.

During the year net assets decreased to £5,600 million from £5,819 million as at 31 December 2010, reflecting the impact of dividends paid exceeding statutory profit for the year.

EXCEPTIONAL ITEMS

Due to structural shifts in commodity markets, and restructuring as a result of the difficult economic and political environment, net exceptional charges from continuing operations of £331 million were incurred during the year (2010: £283 million). Taxation on these charges generated a credit of £69 million (2010: £118 million).

Following the decision to exit Europe and to close our German wholesale business, a charge of £111 million was recorded for a number of onerous European gas transportation contracts, which are no longer utilised by the business. A further £110 million charge was recorded for the onerous fixed-price Rijnmond tolling contract in the Netherlands due to the impact of low market spark spreads.

As a result of low spark spreads, we are proposing to close two UK CCGT power stations, at Barry and Kings Lynn, while our power stations at Peterborough, Brigg and Roosecote are now configured to run more flexibly and operate in the Short Term Operating Reserve (STOR) market. Impairment charges of £226 million relating to UK generation assets were incurred. These impairment charges are largely non-cash in nature.

A charge of £63 million was recorded following the migration of a significant supplier contract, following its termination in December 2010. Additionally an exceptional restructuring charge of £154 million was recorded, mainly relating to staff reductions following a Group-wide cost reduction programme, which is expected to take two years to complete.

During the year the Group announced changes to the terms of the final salary sections of the Centrica Engineers Pension Scheme and the Centrica Pension Plan. Adjustments to projected final pensionable salaries and deferred pensions have resulted in exceptional curtailment gains of £333 million.

A £204 million exceptional deferred tax charge relating to the Group's UK gas and oil producing assets was recorded in the first half of the year, following the increase in the SCT rate in the UK Government's March 2011 Budget from 20% to 32%.

Throughout the Business Review, reference is made to a number of different profit measures which are shown in the table below:

Term	2011 £m	2010 £m	Explanation
Adjusted operating profit*:			
Downstream UK	**1,005**	1,216	
Upstream UK	**1,023**	771	
Storage UK	**75**	169	
North America	**312**	234	
Total adjusted operating profit*	**2,415**	2,390	The principal operating profit measure used by management and used throughout the Operating Review
Impact of fair value uplifts	**(105)**	(118)	Depreciation of fair value uplifts to property, plant and equipment of Strategic Investments (see note 2 and note 11 for further information)
Interest and taxation on joint ventures and associates	**(102)**	(78)	
Group operating profit[Ω]	**2,208**	2,194	Operating profit from continuing operations before exceptional items and certain re-measurements, reconciled to statutory profit in the Group Income Statement
Group profit[Ω]	**1,252**	1,221	Profit from continuing operations before exceptional items and certain re-measurements, reconciled to statutory profit in the Group Income Statement
Adjusted earnings[◊]	**1,333**	1,297	Earnings before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements, reconciled to statutory profit in note 11
Statutory profit	**421**	1,942	Profit including discontinued operations, exceptional items and certain re-measurements

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

◊ As above, except share of joint ventures and associates stated after interest and taxation

Ω Including share of joint ventures and associates stated after interest and taxation and before exceptional items and certain re-measurements

^ Including tax from share of joint ventures and associates, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Business Review

GROUP FINANCIAL REVIEW CONTINUED

Also announced in the March Budget was an intention, from 2012, to restrict the rate of tax relief on decommissioning costs to the previous SCT rate of 20%. If enacted, a one-off charge of approximately £60 million will arise from revaluing the related deferred tax provisions.

On 1 June 2011, the Group completed the sale of the trade and assets of Oxxio B.V. in the Netherlands, which resulted in a loss on disposal of £56 million.

CERTAIN RE-MEASUREMENTS

In our business we enter into a portfolio of forward energy contracts which include buying substantial quantities of commodity to meet the future needs of our customers. A number of these arrangements are considered to be derivative financial instruments and are required to be fair-valued under IAS 39 which means that we apply the prevailing forward market prices to these contracts. The Group has shown the fair value adjustments separately as certain re-measurements, as they are unrealised and non-cash in nature. The profits[Ω] arising from the physical purchase and sale of commodities during the year, which reflect the prices in the underlying contracts, are not impacted by these re-measurements.

The operating profit in the statutory results includes net losses of £463 million (2010: gains of £1,163 million) relating to these re-measurements, of which there are a number of elements. As gas and power were delivered under these contracts, net out-of-the-money mark-to-market positions from the 2010 year end were unwound generating a net gain to the Group Income Statement in the period of £200 million (2010: £1,023 million). As forward prices decreased in the second half of the year the portfolio of contracts fair valued under IAS 39 reported a net charge of £632 million (2010: gain of £130 million). A loss of £5 million (2010: gain of £24 million) reflects positions relating to cross-border capacity and storage contracts while there were also net losses arising on re-measurement of associates' energy contracts (net of taxation) of £26 million (2010: £14 million). Net credits on re-measurement on energy contracts of discontinued operations after taxation were £22 million (2010: £67 million).

BUSINESS COMBINATIONS AND CAPITAL EXPENDITURE

On 1 November 2011, Direct Energy acquired Texas-based retail electricity supplier FCP Enterprises Inc (First Choice Power) for a total cash consideration of $325 million (£206 million). Goodwill of $146 million (£93 million) arose on the acquisition. The acquisition is included within the North America – Residential energy supply segment.

During the year a number of smaller acquisitions were completed for a total cash consideration of £179 million, including deferred consideration of £6 million. Goodwill of £60 million arose on these acquisitions. These included North American energy retailers Gateway Energy Services Corporation and Vectren Retail LLC, a portfolio of additional interests in natural gas assets within the Wildcat Hills area in Canada and PH Jones Group Limited, an independent provider of central heating services to the UK social housing market.

Further details on capital expenditure and business combinations are included in notes 4e and 30 respectively.

RISKS AND CAPITAL MANAGEMENT

Details of improvements to the Group's risk management process during the year are set out on page 49. Details of how the Group has managed financial risks such as liquidity and credit risk are set out in note 25.

Details on the Group's capital management processes are provided under sources of finance in note 12.

EVENTS AFTER THE BALANCE SHEET DATE

On 21 November 2011, Centrica announced that it had signed a 10-year gas supply contract with Statoil starting from 2015, an agreement to pay $1,525 million (£983 million), with an additional payment of up to $100 million (£64 million) contingent on future production performance, for the acquisition of producing and development assets in the Norwegian North Sea and a strategic agreement for partnership on gas exploration activities. On 30 January 2012 Centrica announced the acquisition of an additional interest in the Statfjord asset from ConocoPhillips, for a cash consideration of $223 million (£142 million). On 22 February 2012, Centrica announced an agreement with Total to acquire a portfolio of non-operated producing oil and gas assets for a cash consideration of $388 million (£246 million). These transactions are expected to complete in 2012. Details on other events after the balance sheet are described in note 37.

ACCOUNTING POLICIES

UK listed companies are required to comply with the European regulation to report consolidated financial statements in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group's specific accounting measures, changes of accounting presentation, critical accounting judgements and key sources of estimation uncertainty, are explained in notes 1, 2 and 3.

EFFECTIVE TAX RATE RECONCILIATION

Effective tax rate reconciliation	**2011 £m**	2010 £m
Taxation on profit from continuing operations	**810**	708
Tax impact of depreciation on Venture fair value uplift	**37**	30
Share of joint ventures/associates' taxation	**44**	23
Adjusted tax charge from continuing operations^	**891**	761
Adjusted operating profit*	**2,415**	2,390
Share of joint ventures/associates' interest	**(58)**	(55)
Net interest expense	**(146)**	(265)
Adjusted profit from continuing operations before taxation	**2,210**	2,070
Adjusted effective tax rate^	**40%**	37%

Nick Luff
Group Finance Director
23 February 2012

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

◊ As above, except share of joint ventures and associates stated net of interest and taxation

Ω Including share of joint ventures and associates stated after interest and taxation and before exceptional items and certain re-measurements

^ Including tax from share of joint ventures and associates and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

CORPORATE RESPONSIBILITY REVIEW
BUILDING TRUST IN OUR BUSINESS

Mary Francis CBE
Senior Independent Director and Chairman of the Corporate Responsibility Committee

Centrica's corporate responsibility ambition is to be the most trusted energy company. Although we are facing significant challenges across our businesses, we understand the impact our activities have on the societies we serve and the environments in which we operate, and we know we must contribute to their health and sustainability.

During 2011, we continued to focus on our most material issues: treating our customers with fairness, with a focus on the cost of energy and supporting vulnerable customers; securing future energy supplies; and reducing carbon emissions through decarbonising our power generation activities and helping customers cut their energy usage.

We expect energy pricing to continue to have a high profile in 2012 and helping our customers manage their energy costs will be a priority. However, we will not neglect other important challenges. We know British Gas does not currently enjoy the level of trust to which we aspire and we will therefore devote significant effort in 2012 to strengthen faith in our business.

The following pages describe the progress Centrica made in managing corporate responsibility issues in 2011.

Mary Francis

Mary Francis CBE
Chairman of the Corporate Responsibility Committee

EXTERNAL ASSURANCE AND PERFORMANCE INDICATORS

We want our stakeholders to be confident that our metrics accurately reflect our performance. Therefore, we asked Deloitte LLP to provide limited assurance, using the International Standard on Assurance Engagements (ISAE) 3000, on the most important key performance indicators that have a material impact on our business. Key performance measures are included in this section, with a full table available on pages 136 and 137.

Deloitte's full assurance statement and the Basis of Reporting are available in our online Annual Report at www.centrica.com/report2011/assurance.

CORPORATE RESPONSIBILITY REVIEW CONTINUED

TRUST

Our corporate responsibility (CR) ambition 'to be the most trusted energy company' is rooted in sound business sense. We need to be trusted by our customers for them to continue to choose us as their supplier, and by governments and regulators for our views and recommendations to carry weight. In achieving a broad foundation of trust we can ensure sustainable business success.

To build our stakeholders' trust, we must:

- work harder to communicate clearly with them; and
- recognise the key social and environmental issues which concern them, and deliver on our commitments.

2011 saw a continued erosion of British consumers' trust in all energy suppliers. Research shows the reputation of UK energy companies, including British Gas, is increasingly affected by energy prices and the perceived lack of fairness in pricing structures. In response, we reassessed the key issues essential to our vision of becoming the most trusted energy company. These are set out in the diagram below with each area examined in more detail in the following sections, along with information on our approach to CR governance.

CR GOVERNANCE, STRATEGY AND RISK

We have strong governance and internal communications systems to make sure we apply our values consistently and can reconcile conflicting priorities in a responsible manner. Effective governance also helps us ensure CR is integral to our normal business activities.

Centrica's Executive Committee, chaired by the Chief Executive, has overall responsibility for implementing CR strategy. The Board of Directors oversees the strategy and programmes through its Corporate Responsibility Committee, chaired by the Senior Independent Director. This Committee makes recommendations on CR strategy to the Board, and monitors the implementation of strategy and Group performance. In 2011, we intensified the Committee's focus on longer-term strategic issues.

Details of the Committee members are set out on pages 42 and 43. We regularly review the Committee's composition and, during 2011, Margherita Della Valle joined the Committee. Grant Dawson, Centrica's General Counsel & Company Secretary, joined the Committee on 1 January 2012 in succession to Catherine May who left in December 2011.

Assessing material risks and opportunities

Our business involves us in a wide range of social, environmental and ethical issues. Individual business units are responsible for identifying material issues of concern to stakeholders and assessing the robustness of our risk management. The Centrica Executive Committee and our CR teams contribute to these assessments, working closely with our business risk teams.

We engage regularly with stakeholder groups, including governments, regulators, investors, business partners, local communities and non governmental organisations (NGOs), to maintain a comprehensive understanding of our material issues and their impact in the wider environment.

Stakeholder engagement

In late 2010, we strengthened our links with stakeholders by establishing a CR Advisory Group. Members are drawn from our key stakeholder groups and provide regular feedback and guidance on CR issues, strategy and performance. The group met three times in 2011, and advised on issues including biomass power generation, climate change policy and customer privacy.

British Gas' Customer Panel, created to gain deeper insight into customer opinion, discussed a range of topics in 2011 including future pricing trends, smart metering, British Gas community projects and central heating installation.

We maintained our dialogue with socially responsible investment organisations and covered CR issues at a number of mainstream shareholder presentations. We will continue to participate in selected indices such as FTSE4Good and the Carbon Disclosure Project (CDP) demonstrating transparency and benchmarking our performance. We were pleased to improve our CDP score for the fifth successive year and to achieve a top 10 position in the 2011 CDP Leadership 'Global 500' Index.

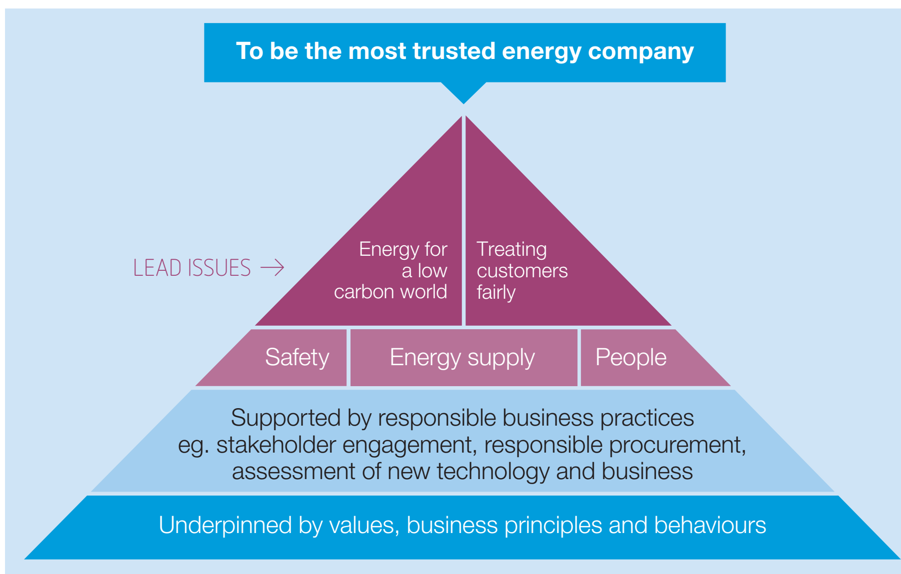
Business principles

Centrica's business principles, highlighted on page 4, define our culture and guide our decision-making. All senior managers must sign a declaration that they understand and will adhere to the principles.

We have a thorough anti-bribery and corruption training programme to embed high standards of behaviour in our external dealings and ensure compliance with the US Foreign Corrupt Practices Act and the 2010 UK Bribery Act. More than 97% of Centrica senior managers have so far completed the training.

We operate a 24/7 'Speak Up' programme that enables any employee to raise concerns regarding non-compliance with our business principles, with an independent third party. In 2011, 41 contacts were handled. All cases were resolved and closed, leading to disciplinary action for one employee and the dismissal of three employees.

OUR MATERIAL ISSUES

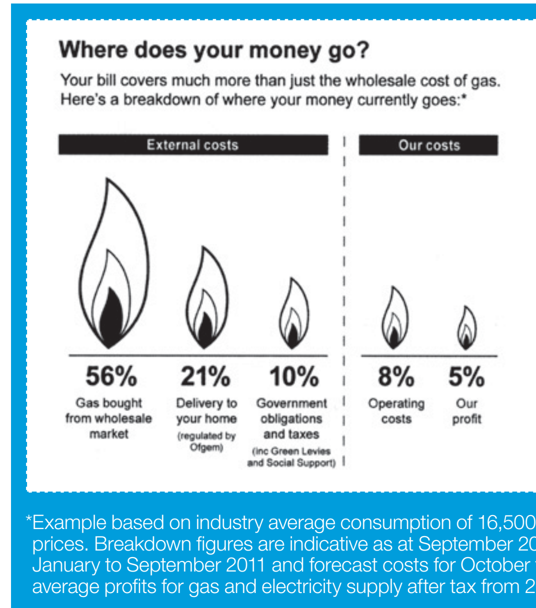


TREATING CUSTOMERS FAIRLY

Trust is essential to the health and growth of our business. Unless customers trust our service expertise and advice, they will not have confidence in the innovative products we provide to help them change the ways they use energy. Unless they trust our ability to source sustainable and reliable energy supplies and price them fairly, they will not choose us to supply gas and electricity to their homes and businesses. Unless they trust our skills and reliability, they will not call on our engineers to install and maintain their energy appliances.

In the UK, the reputation of energy companies, including British Gas, is increasingly dominated by the question of energy prices and by perceived levels of complexity and fairness. We understand the concerns and in 2012 will focus on:

- addressing – and where possible reducing – the complexities of energy pricing;
- supporting our more vulnerable customers to help them pay for energy, manage their energy consumption and better insulate their homes; and
- improving customer service and communicating clearly with all our customers in our marketing and billing.



Breaking down the bill

More than 80% of the costs that make up a UK customer's bill – both gas and electricity – are outside our immediate control. This includes the cost of wholesale energy (around half the bill) plus regulated transportation costs, and government obligations and taxes. Costs of regulatory environmental initiatives amounted to £77 on the average dual fuel bill in 2011. Under current policies, these are likely to increase substantially, doubling over the next three years.

*Example based on industry average consumption of 16,500 kWh per year and on average regional prices. Breakdown figures are indicative as at September 2011 and are based on actual costs from January to September 2011 and forecast costs for October to December 2011. Profit figure based on average profits for gas and electricity supply after tax from 2006 to 2010.

Addressing the complexities of energy pricing

The UK has the most competitive residential energy market, and the lowest residential gas prices in Europe. We cannot shield our customers from the long-term trend towards higher energy prices, but we will continue to price fairly and work harder to explain energy prices clearly.

A small proportion of the customer's bill in the UK, averaging around 5%, represents the post-tax profit we make – a figure that we have consistently stated is necessary to maintain our business on a sustainable basis.

We also recognise that some stakeholders nevertheless believe that energy suppliers are too quick to increase customer prices when wholesale prices rise, and too slow to pass on reductions. We buy gas in advance in order to secure supplies, and this means that there is a recurring lead/lag element between price changes and current market movements. We review all price changes with great care to ensure that they are fair and transparent. This is reflected in the stable levels of our profit margins in recent years. When we can reduce prices, we do and we have cut them four times since 2009.

Price changes are also subject to close external scrutiny and we note that the UK Regulator, Ofgem, has found no evidence of price collusion in the market in successive industry investigations. In January 2012, an independent review of suppliers' energy accounts by the accountancy firm BDO LLP, commissioned by Ofgem, found that the financial information provided by suppliers was fair, appropriate and consistent with official numbers. We had already welcomed Ofgem's moves to increase transparency on the reporting of energy company profits as this is important in building customer trust.

Price structures and clearer communications

We also recognise that there is concern and potential confusion about the number and structure of energy tariffs. British Gas has responded to this.

We reduced the number of tariffs we offer and introduced a simple online tariff checker to help customers find the best tariff for their needs. We are also reviewing our 'two-tier' tariff structure with a view to developing one that is easier for customers to understand and compare with other offers. We provide a full breakdown of costs in customer bills and have advertised widely in the national press to highlight our initiatives and communicate key messages.

In November 2011, the Managing Director of British Gas made a direct commitment to UK customers to communicate clearly, to explain underlying movements in energy prices, and help them reduce their energy costs. We called this initiative the 'honest conversation' and have pledged at the same time to do all we can – working with the UK Government and Regulator – to meet the challenge of securing national energy supplies.

Our online tariff checker is @ **www.britishgas.co.uk/betterdeal**

CORPORATE RESPONSIBILITY REVIEW CONTINUED

Working with the Regulator

The role of Ofgem is to protect the interests of consumers, wherever possible by promoting competition. Centrica is committed to working with Ofgem to ensure that the Regulator's concerns and the needs of our customers are met. As well as promoting fairness and competition, one of our key objectives is to ensure that we remain able to run our business profitably. This is essential so we can invest in costly but necessary future energy supplies and maintain the confidence of our shareholders and lenders who provide us with capital.

During 2011 we engaged fully with Ofgem's review of the UK retail energy market, and continue to do so. As described on page 31, British Gas is already acting to simplify its tariffs and make them easier to understand and compare. This is in addition to our ongoing work improving the energy efficiency of our customers' homes and the financial support we provide to those considered fuel poor.

While supporting the intent behind Ofgem's proposals, we believe the proposals as they stand may have serious unintended consequences, specifically the Regulator's proposals to introduce wide-ranging restrictions to the tariff market. We believe it is in our customers' interests to offer them a reasonable choice of tariffs, dual fuel discounts and further discounts (for example if they choose paperless billing through an online tariff). Unless customers are prepared to be tied into a fixed term contract, all of these offerings will disappear should Ofgem's proposed approach be implemented.

The development of new tariffs is also an important way to ensure benefits can be realised from new technologies. We are particularly concerned that one of the important benefits of smart meters, to enable customers to take advantage of time of use pricing, will be removed by the proposals. As well as making the adoption of smart meters less attractive, this will reduce customers' incentive to consume more energy in off-peak periods.

We will continue to work with Ofgem on these issues in 2012 with a view to developing a package of reforms that meets the needs of all customers.

1.7 MILLION

During 2011, 1.7 million vulnerable households were helped by British Gas initiatives

Helping our vulnerable customers

In the UK, our strategy is to provide targeted assistance to vulnerable customers to ensure the help they receive is appropriate to their needs. We do this mainly through the energy efficiency and financial support schemes described below. We also provide a range of initiatives such as payment plans and assistance for disabled customers which we deliver both directly and through charities and other third parties. In 2011, 1.7 million vulnerable households (1.6 million in 2010) were helped by British Gas initiatives.

Energy efficiency

Energy efficiency support for low-income and vulnerable customers is primarily provided through two UK Government schemes: the Carbon Emissions Reduction Target (CERT) and the Community Energy Saving Programme (CESP). Although mandatory, the schemes represent a significant social investment for British Gas and are a core part of our responsibility to customers.

Through our CERT scheme, we provide energy efficiency services such as installing new boilers and heating appliances, as well as insulation, energy saving light bulbs, home appliances and devices. Part of the CERT commitment involves the provision of insulation and other measures to our most vulnerable households. In 2011, we provided household energy efficiency products with equivalent lifetime carbon savings of 14.6 million tonnes.

CESP eligibility is based on geographic locations derived from deprivation indices and British Gas works closely with local authorities and registered social landlords to deliver our obligations. CESP aims to retrofit energy efficiency measures in some of the most deprived communities in the UK. In 2011, we delivered almost 1.4 million tonnes of lifetime carbon savings through the scheme.

Financial support

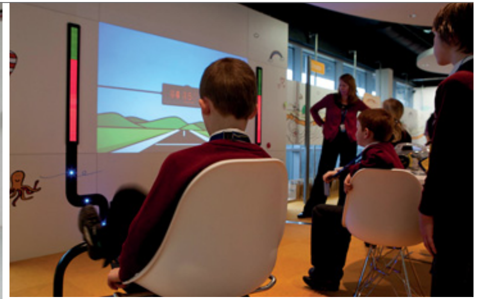
We provide direct financial support to vulnerable customers through the Warm Home Discount scheme (WHD) which was introduced during 2011 under the UK Energy Act, 2010.

We support the UK Government approach of enabling the £120 WHD credit to be paid to those on Pension Credit Guarantee and are proud to have introduced the most extensive WHD 'broader group' criteria in the industry which allow more families to benefit. In 2011, we spent more than £80 million providing 250,000 customers with the WHD and supporting more than 330,000 vulnerable customers on 'Essentials', our social discounted tariff. This was considerably more than any other UK energy supplier spent and far beyond our equivalent market share.

In addition, we are helping more than 500,000 vulnerable households in debt through flexible payment plans and wider support through our British Gas Energy Trust, a registered charity funded by donations from British Gas to which we contributed £20 million at the end of 2010. We have maintained our prepayment tariffs at the same rate as conventional cash or cheque tariffs since early 2010 even though these accounts cost us more to service.

We go to extensive lengths to keep customer supplies connected and have not disconnected a single UK customer for debt in nearly two years. As a result of our proactive approach and talking to customers who are having difficulty with their bills, fewer customers were in debt at the end of 2011 than 2010, despite the worsening economy.

In Texas, Direct Energy's 'Neighbor-to-Neighbor' programme supports customers facing financial hardships. The programme works with more than 30 community agencies to screen recipients and administer the funds – up to $600 per home a year – available to help vulnerable customers pay their energy bills. In 2011, we spent $425,000 on this programme and Direct Energy customers can also support the programme by making donations to Neighbor-to-Neighbor through their energy bills.



WE CONTINUE TO WORK TOWARDS A LOW CARBON SOCIETY BY PROMOTING CUSTOMER ENERGY EFFICIENCY, DECARBONISING OUR GENERATION MIX AND CUTTING OUR OWN EMISSIONS FROM PROPERTY, FLEET AND TRAVEL

Ethical sales

In the UK, our dedicated sales quality team oversees compliance with the 'Treating Customers Fairly' principles, British Gas' sales code of practice and Ofgem's requirements for best practice.

Despite our efforts, we do still receive complaints. Typical issues in our sector include inadequate explanation of contracts and payment terms. In 2011, there were only 28 accepted sales complaints, a reduction from 62 in 2010.

After reviewing our sales operation, we announced in August 2011 that British Gas would terminate unsolicited doorstep selling. We now only visit customers at home with a prior appointment.

In North America, where door-to-door sales remain a more accepted sales channel, energy suppliers are subject to stringent consumer protection laws and mandatory sales processes. We are working with legislators to implement consistent consumer protection laws across our markets and employ third-party verification and quality checks on sales agents.

Customer service

We have made significant improvements in standards of service in recent years. Our innovations in 2011 included addressing customer service queries through social media and providing 'how to' videos on basic central heating maintenance.

Our aim is to maintain a culture where our employees strive to offer customers the best possible service. We track customer perception of our service by using net promoter scores (NPS), which measure a customer's willingness to recommend us. NPS enables us to compare our performance with direct competitors in each market and with our own performance year-on-year. The British Gas NPS improved in 2011 with an annual average score of +26*, despite customer concerns around increasing energy prices. Direct Energy NPS ended 2011 at +28, a significant improvement on 2010.

We also track the volume of complaints across all our businesses and accept there have been failings within our British Gas Business (BGB) division. Since discovering we were not operating in line with the regulations in 2010, BGB has upgraded all its complaints handling systems, processes and training in order to identify all expressions of dissatisfaction. This investment has seen a step change in our approach to complaint handling with systems in place to ensure that we comply fully with Ofgem rules.

SECURING UK ENERGY SUPPLIES

New forms of energy, such as shale gas, wind and biomass, present opportunities for energy security and a lower-carbon future. However, they also raise significant social and environmental concerns. We are working hard to ensure that all our gas production and energy generation activities are carefully planned and managed to avoid adverse impacts. For example, we agreed with Natural England to use specialised trenching equipment to install cable ducts under the salt marsh and sea defences for the Lincs offshore wind farm construction.

Centrica Energy is also seeking consent to build and operate a new dedicated biomass-fuelled electricity-generating station on the site of our existing gas-fired power station at Barrow-in-Furness, in Cumbria. We are conducting wide-ranging local consultation to ensure the proposal is transparent and the project fully understood by stakeholders.

ACHIEVING REDUCTIONS IN CARBON EMISSIONS

Our business has a substantial environmental impact. In 2011, we were responsible for approximately 7.9 million tonnes of carbon dioxide (CO_2) equivalent emissions (down from approximately 10.9 million tonnes in 2010) arising from our gas and oil operations, our electricity generation and the energy we use in our business activities. We continue to work towards a low carbon society by promoting customer energy efficiency, decarbonising our generation mix and cutting our own emissions from property, fleet and travel.

Customer carbon

The most significant carbon emissions associated with the energy industry arise from customers' gas and electricity usage. Helping our customers to manage their energy use and generate their own energy from renewable sources is essential to achieving a low carbon society.

*NPS calculation methodology and scope for British Gas has altered in 2011, 2010 data on page 136 has been restated at the new scope

CORPORATE RESPONSIBILITY REVIEW CONTINUED

14.6M TONNES

In 2011, we provided household energy efficiency products in the UK with equivalent lifetime carbon savings of 14.6 million tonnes

We offer a range of services to increase energy efficiency, including insulation and energy efficient appliances. These are the most effective ways for residential and business customers to cut energy use and reduce energy bills. The UK Government sees energy efficiency as key to meeting its carbon reduction targets and has regulated accordingly. Our support for the main domestic energy saving schemes – the CERT and CESP – is described on page 32.

Power generation

Most electricity is still generated by burning fossil fuels. To achieve a low carbon future, use of fossil fuel energy sources, particularly coal, must be greatly reduced. To move towards that goal, we are investing in offshore wind capacity and evaluating options in new nuclear and biomass.

Decarbonising power generation will take time. Throughout the process, we must maintain our ability to meet our customers' immediate energy demands. Gas will remain an important part of the energy mix because it is the least carbon-intensive of the fossil fuels, it helps achieve energy security and can provide the essential flexible back-up to intermittent wind generation.

We measure progress towards our ambition to decarbonise energy by monitoring the carbon intensity of the power we generate. This includes the carbon emissions from all our own generation facilities and from other facilities where we have site-specific power purchase agreements.

In 2011 our Group carbon intensity was 221g CO_2/kWh, compared to 277g CO_2/kWh in 2010, a significant 20% reduction. We continued to reduce the carbon intensity of our UK power generation fleet, achieving 200g CO_2/kWh. This reduction was mainly due to the first full year's offtake of nuclear power from our 20% stake in EDF Energy Nuclear Generation (formerly known as British Energy) and the effect of placing a number of gas-fired power stations into preservation mode for periods of the year.

Carbon footprint from buildings, company vehicles and travel

We measure emissions relating to our operations by calculating our internal carbon footprint, including emissions from office energy use, company vehicles and business travel. We are working hard to reduce this footprint by raising awareness among employees, making our offices more energy efficient, investing in lower-carbon vehicles and providing alternatives to business travel.

Our target is to cut the emissions from buildings, company vehicles and travel in our core business by 20% by 2015 (from the 2007 baseline). In 2011 we achieved a 5% reduction year-on-year, (a 19% reduction against the baseline). Total carbon emissions were 95,234 tonnes.

MAKING SAFETY A CORE VALUE

Our operations – both upstream and downstream – are inherently hazardous and we fully accept our responsibility to protect the health and safety of our employees, contractors and customers, as well as the wider public. Safety is a top priority with the Centrica Board which has direct oversight of our health and safety performance.

Safety risks range from slips, trips, falls and road safety incidents in our customer-facing businesses to a major incident at our oil, gas and power-generation facilities. The majority of Centrica employees work in our customer-facing businesses within British Gas and Direct Energy. The safety of our customers in their homes is also of critical importance to us.

We report the total recordable injury rate (TRIR) in addition to the standard lost time injury rate (LTIR). Recording a broader

20%

We aim to reduce the carbon footprint of our existing offices, company vehicles and travel by 20% by 2015

Total carbon emissions in 2011 was 95,234 tonnes, a 5% reduction from 2010.

range of injuries, not just those that result in lost time, provides a more complete picture and aids future prevention.

Initiatives across the Group in 2011 led to a reduction in our LTIR to 0.25 per 100,000 hours worked, down from 0.43 in 2010. Our TRIR was 1.66 per 100,000 hours worked in 2011. The majority of incidents continue to occur among our service and repair workforce, who face particular risks from driving and working in the unfamiliar environment of customers' homes or businesses. We also expanded our reporting scope for 2011, incorporating safety performance for our third party managed activities not directly controlled by Centrica.

There were no fatal incidents among Centrica Group employees or associated third party activities in 2011. Very regrettably, in the US a member of the public was killed in a road accident involving one of our employees.

Safety at our assets and operations

High-profile incidents such as the blowout on the Deepwater Horizon drilling rig have put the spotlight on process safety. After a thorough review of our systems and procedures in high-hazard operations, we enhanced the monitoring of safety performance among our contractors and further promoted a culture in which employees and contractors feel able to challenge unsafe practices.

Our 20% stake in the nuclear joint venture with EDF involves specific safety challenges at existing nuclear power stations. While we do not operate any of these facilities, we have a responsibility as a minority

shareholder with board representation on EDF Energy Nuclear Generation Group Limited to monitor and oversee safety performance. After the tragic events at the Fukushima power station in Japan, the joint venture and the Office for Nuclear Regulation (ONR) conducted thorough 'stress tests' to ensure the continued operation was safe. For more detailed information, visit EDF Energy's website at www.edfenergy.com.

In September 2011, the UK Government published the Weightman report, which was positive for the UK nuclear industry, giving a clear endorsement of the safety culture and current performance. We have pledged, with our partner EDF Energy, to proactively implement the 26 recommendations in Dr Weightman's report.

Driver safety

Driving is one of the most hazardous activities that many of our employees face. Road accidents are a significant risk for British Gas and Direct Energy engineers who regularly drive to support our customers. We prioritise high mileage employees, together with new drivers, those changing vehicle type and other high-risk drivers, to complete driver development training. We are also enforcing a policy to prevent the use of any form of mobile phone while driving on company business.

In 2011, we recorded a low severity road safety incident rate of 7.5 per 1 million kilometres driven, and 10 incidents of high severity. We aim to reduce this in 2012 through continued focus on working practices, training and communications campaigns.

OUR EMPLOYEES

In 2011, we employed an average of 39,432 employees during the year. The retention rate was 89.5%, compared to 89.9% in 2010.

During 2011, we conducted a thorough review to ensure our cost base remains low so we can offer competitive prices and products. The review concluded that accountability for decision-making should lie with our operating businesses, supported by a leaner corporate centre. To achieve these goals, we needed to make some difficult decisions that resulted in some employees leaving the business. This is never an easy process and we made every effort to support those affected.

Skills and development

Continuous learning and development is essential to ensure all our employees have the opportunity to fulfil their potential and are equipped with the right skills and behaviours to help us grow our business and implement our strategy.

Developing our leaders is important to us. Our talent boards, general management programme and leadership master classes are designed to identify and nurture our high-potential managers.

The services we provide for customers, such as installing and maintaining their heating, electricity, plumbing and meters, require specific technical knowledge. Across the UK, British Gas' network of engineering academies trains apprentices to become service engineers. In 2012, we will be offering up to 500 new apprenticeships in 'smart' technologies.

Employee engagement

We measure employee engagement through Group surveys. Feedback enables us to gauge the level of commitment to the Company and identify areas where we need to improve.

In 2011, as planned, we did not conduct a Group-wide employee engagement survey but undertook a strategic review of how we measure employee engagement as a tool to drive business performance. The outputs of this review will inform how we use the survey results to improve and increase the quality of our future engagement.

Employees receive regular communication and consultation through a wide variety of media. Company business and financial performance is communicated to all employees using online media, printed materials and face-to-face briefings with members of the Executive Committee. Most employees are eligible to participate in employee share schemes to further their commitment to Centrica's performance.

Diversity

We aim to provide an inclusive and diverse workplace and are committed to making the principle of equal opportunity a reality in our business. We will not tolerate discrimination against people with disabilities, subject to health and safety considerations, or any other group. We give full and fair consideration to applications for employment made by disabled people. If an employee becomes disabled while in our employment we offer, wherever possible, support, retraining, equipment and facilities to enable their employment to continue. Our Diversity and Inclusion policy further outlines our commitments on diversity.

Age discrimination can be a barrier even among younger workers. We encourage the retention and recruitment of older people, recognising the valuable experience they bring to Centrica. British Gas has taken a leading role in removing upper age limits for our apprenticeship schemes in the UK. More than a third of our apprentice engineers are over the age of 25 when they join.

Improving women's representation at all levels remains a priority. We focus on leadership training, recruitment, flexible working and employee network groups. Achieving gender balance among engineers is particularly challenging because engineering remains a predominantly male profession. A dedicated diversity and inclusion team at our British Gas Academy is working to improve the representation of female engineers.

MORE CR

READ MORE ABOUT OUR CR ACTIVITIES AT CENTRICA.COM

Other significant aspects of our businesses and CR activities include management of the supply chain, environmental management and community engagement and investment. Please see our online CR Report for more information: www.centrica.com/responsibility

Full key performance measures in appendix on **pg 136**

RISKS AND UNCERTAINTIES

UNDERSTANDING AND MANAGING OUR RISKS

Nick Luff
Group Finance Director

Given the significant opportunities and challenges we face in our markets, it is important that our risk and control processes continue to evolve to ensure that risks are identified and assessed in a timely manner and that the controls designed to manage them are operating effectively.

The assessment and treatment of risks to delivering Centrica's objectives are key disciplines that are practised throughout the organisation in our day-to-day management of business issues. In addition, a formal risk management structure exists to challenge risk, to ensure the visibility of significant risks and to help identify any emerging risks facing our business. The formal governance structure is described in more detail in pages 49 and 50 of our Corporate Governance Report.

During 2011, we reviewed our processes to ensure they remain appropriate and reinforce the linkage between risk and controls. Key improvements include: reporting internal audit activity against risk 'themes' designed to identify gaps or common issues across our businesses; updating our risk-assessment matrices; introducing new controls guidance to provide greater differentiation and more informed decisions over controls maturity; endorsing an updated business risk policy and standards, and increasing our focus on tracking mitigating actions.

In addition, we recently made changes to our governance for 2012, meaning that the Group Risk Management Committee (GRMC) is now chaired by the Group Chief Executive and membership reflects that of the Executive Committee. We expect these changes to streamline our governance process while ensuring that the Executive Committee continues to provide focused debate and challenge to the Group's current and emerging risks.

While not intended to be exhaustive, the following pages provide a summary of the Group's key risks.

STRATEGIC GROWTH

What is the risk?

As highlighted earlier in the Business Review, the Group continues to pursue a range of investment options across the energy chain in different geographies to both deepen our customer relationships and secure the Group's future energy requirements. However, we face an increasingly uncertain environment shaped by a number of key challenges. These include the sovereign debt crisis, UK political and regulatory pressures, stretching carbon targets and North Sea fiscal changes, as well as changes in the level of support for renewable energy that makes future investment less certain.

In addition, the Fukushima nuclear incident triggered further design reviews and licensing requirements in the UK, causing delays to a decision on nuclear new build (NNB) investment. The final investment decision is targeted for the end of 2012, although there remains much to be achieved before the decision can be taken. Should the business case not support NNB investment, this would risk a loss of up to £200 million in pre-development costs invested and the write-off of any value attributed to new-build within the goodwill on our balance sheet.

The US and Canadian economies also remain fragile, with recovery expected to be slow and prolonged. Uncertain customer demand and low wholesale prices pose risks to our key strategic objective to grow our integrated North American business. A failure to deliver material growth in North America could erode investor confidence and have a significant impact on the Group's revenues and profits.

How do we manage it?

The Group continues to invest in projects with a strong strategic fit and where returns are commensurate with the risk being taken.

As detailed earlier in the Business Review, we continue to make good progress on our capital investment programme through a combination of upstream gas and oil acquisitions in both the North Sea and North America, organic investment in our existing business and the establishment of long-term supply arrangements for both gas and liquefied natural gas (LNG). We have also formed a new strategic alliance with Qatar Petroleum International (QPI) to consider opportunities for energy-related investments. These are important steps to securing vital energy supplies for our customers.

In respect of power, we continue to invest in expanding the scale of our offshore wind operations and we retain further investment options in respect of biomass, new build CCGT and nuclear. The UK Government has also reiterated its support for new nuclear. We are actively engaged with the UK Government on nuclear policy, attend NNB meetings and have a series of project governance meetings in place with EDF.

Our downstream business continues to progress through the integration of acquired businesses and the establishment of strategic partnerships in respect of emerging technologies.

We continue to seek and execute opportunities for growth designed to achieve a leading position in North America for energy and related service provision. The Clockwork integration has been completed and the acquisition of Home Warranty of America (HWA) positions us as the first home services provider in the US to be able to offer the dual capability of home energy services and protection plan products, adopting the market-leading model developed by British Gas in the UK. Our acquisitions of Gateway Energy Services, First Choice Power and Vectren Retail continue to build on our successful strategy of acquiring smaller suppliers and increasing our market share in deregulated markets.

COMMODITY PRICES

What is the risk?

The UK now imports almost 50% of its gas from overseas, which makes us vulnerable to price movements around the world. In 2011, higher consumption in Asia, the impact of unrest in the Middle East and North Africa, and increased gas demand as a result of the Japanese earthquake, combined to increase wholesale costs. A significant proportion of the Group's profitability depends on our ability to manage our exposure to wholesale commodity prices. We must continually assess the risk of procuring these commodities at fixed prices to meet uncertain levels of demand that are subject to both seasonal variance as well as macro-economic factors.

There is a risk that surplus commodity positions cannot be sold to the wholesale markets profitably and that any commodity shortages cannot be covered at a cost lower than the end sales price. In particular, we offer a number of fixed-price products, which are fully hedged at the start of the contract. These products are competitive when prices increase but when prices fall we can experience customer losses and could be exposed to surplus commodity positions.

Significant longer-term price increases or decreases may require us to change the price at which we sell to our customers on variable tariffs. Where we do pass increased commodity prices on to our customers, or do not pass on lower commodity prices, customers may switch to our competitors, which could have an impact on our business.

In addition, investment decisions key to our strategic growth plans, particularly in respect of upstream assets such as gas fields or power stations, are based on evaluations underpinned by forecasts of longer-term commodity price development. These reflect prevailing market prices and are supplemented by assessments of underlying industry fundamentals. The Group could suffer significant loss of value if commodity prices fall significantly from levels foreseen at the time of asset acquisition, leading to lower profits and lower than expected returns.

How do we manage it?

We manage these risks through an active hedging programme controlled through robust governance frameworks. These were reviewed in 2011 to ensure they remained appropriate for the scale and nature of our hedging operations.

Strategic investment decisions are also made within a capital allocation framework designed to ensure that proposals are rigorously evaluated prior to acquisition and that they meet Board-approved financial criteria over the life of the project. The long-term gas supply relationships with Statoil and Qatargas, the acquisition of increased stakes in the Statfjord fields and the securing of new licences for exploration blocks on the Dutch continental shelf in the Southern North Sea are examples of how we continue to develop our asset portfolio.

RISKS AND UNCERTAINTIES CONTINUED

BRAND AND REPUTATION

What is the risk?

As highlighted in the Corporate Responsibility report on page 29, our ambition is to be the most trusted energy company. However, 2011 saw a continued erosion of consumer trust in all energy suppliers, including British Gas, driven mainly by increasing energy prices and a perceived lack of fairness in pricing structures at a time of deteriorating economic conditions. This has contributed to an increased level of debate as to whether consumers are receiving a fair deal and an increased focus on the contributions UK households will have to make through energy bills to pay for Government social and environmental levies and initiatives to fund the replacement of old and high-carbon energy infrastructure. This debate has also served to highlight the level of confusion on this subject amongst both customers and other stakeholders.

The Group recognises that rebuilding confidence in our brand and reputation, as well as that of the wider energy industry, is essential to the future success of our business. Failure to restore consumer confidence could further damage our brand, lead to customer losses and impact the Group's revenues. A failure to maintain our reputation with key stakeholders could also lead to further intervention by the UK Government or the Regulator in the Group's businesses.

How do we manage it?

As discussed earlier in the Business Review we have taken a number of steps designed to rebuild trust in the energy industry. In November we announced a simplification of tariff structures and launched the 'honest conversation' about the future of energy in Britain. We have written to each of our customers to assist them in checking whether they are on the right tariff and have provided a breakdown on the bill of the actual costs of providing the energy our customers consume. We have also made sure that our most vulnerable customers receive the £120 Warm Home Discount.

We continue to work with our customers to help them manage their energy usage through improved awareness and a range of energy efficiency measures. In addition we maintain a regular dialogue through both our British Gas Customer Panel and the CR Advisory Group.

The Group also has a programme of relationship management with Government, Ofgem, and other key stakeholders as well as relevant North American state and federal regulators. We also manage the risk of non-compliance on matters that could lead to prosecutions, fines and reputational damage. In addition, in 2011 we undertook a review of our reputation management risks and in 2012 have established a Reputation Management Group which will report formally on a quarterly basis to the Executive Committee.

REGULATION AND LEGISLATION

What is the risk?

We are facing an unprecedented level of scrutiny of our businesses by all stakeholders. This could impact the Group's future investment decisions and its ability to meet its long-term growth aspirations.

Following the financial crisis, the G20 commitment led to a wave of financial regulation in the US and Europe. It is not possible to understand the precise impact of this until the definitions and details are established, should the new regulations be agreed.

There are continuing regulatory risks around retail sector competitiveness as higher wholesale commodity prices feed through to customer bills. In the meantime, a decrease in customer disposable income continues to be felt. In recent months, in the UK, Ofgem has stepped up its focus on enforcement activity and the proposals resulting from the recently published Retail Market Review (RMR), if not modified, will introduce significant further risk to our downstream business in the UK and, potentially, to the pace of smart meter roll-out as well as reducing choice for our customers.

Domestic energy suppliers are set targets by the Government to reduce carbon emissions, through defined programmes of work. If the business is unable to meet targets, fines can be levied. In addition, the Government has announced its intention to legally mandate the replacement of all meters with smart meters. Depending on the deadline and the order of replacement, contractual payments may have to be made to meter owners.

In the 2011 March Budget, the UK Government announced an increase in supplementary corporation tax (SCT) on UK oil and gas production from 20% to 32%. This change not only impacts the Group's revenues, but also undermines stability and investor confidence.

The UK Government is also introducing reforms into the electricity market to encourage investment in low carbon generation and secure affordable supplies.

In North America, every jurisdiction differs; the regulatory and legal framework is primarily set on a provincial or state level, making generalisations difficult. Texas appears to be the most stable and positive environment, while continuing to promote a liberal electricity market. The Ontario market continues to be a tough regulatory environment.

How do we manage it?

We are actively engaging with stakeholders, including government and regulators in the UK, the US and Canada so we can help shape these proposals and manage the risks they present to our business. The Centrica Policy Group continued to meet on a regular basis during 2011, attended by the Board and Executive to discuss and agree Group-wide positions on each issue.

In 2011, we completed a Group-wide anti-bribery and corruption programme designed to ensure compliance with the UK Bribery Act 2010 and the US Foreign and Corrupt Practices Act (FCPA).

COMPETITION

What is the risk?

We continue to face intense competition risks in the retail energy supply markets in both the UK and North America. Price and product-led switching in our residential businesses has been driven by strong competition from both existing competitors and new entrants in residential services businesses.

In addition, we are seeing a general trend towards new business areas such as home energy management. New technology allows non-energy, web-based firms to access customer energy consumption data, with or without the agreement of energy suppliers. This new data will not simply be used for billing, but also to provide the customer with advice, new products and new services. Together, these factors compromise customer growth when compared to our projections. As a result of competitor activities, the Group could lose market share, which could affect profitability and our ability to meet growth aspirations.

How do we manage it?

We regularly review our operations to ensure they are organised as effectively and efficiently as possible. Together with robust management of our cost base, this supports our retail business in offering our customers competitive prices and products.

We continue to lead the industry in delivering energy efficiency and need to ensure stakeholder effort is focused on driving these growth areas through a market design which delivers the transition to 'smart' energy and promotes investment in energy efficiency solutions in homes and businesses. In 2011, we launched Nectar and Sainsbury's Energy, along with four other affinity deals. Our British Gas website was voted the best by uSwitch, the comparison and switching service, and we have doubled the number of self-service transactions via the web.

ORGANISATIONAL CHANGE

What is the risk?

It is important that as our business grows, structures are regularly reviewed to ensure that activities are organised in the most effective and efficient way. In this way we ensure that our cost base is as low as possible so we can offer our customers competitive prices and products.

The successful delivery of any resultant business change is key to our future success. This includes both cultural and behavioural change as well as delivery of ambitious technical-change programmes.

We recognise that attracting and retaining both senior management and skilled and motivated personnel is a critical factor in the successful execution of the Group's strategy, from the provision of enhanced customer service, through new systems and processes, to the development and management of upstream assets.

The Group also needs to maintain good relations with trade unions, primarily in the operational workforce in the Centrica Energy upstream division and the engineers in British Gas. There is a risk that industrial relations with the GMB and/or UNISON fail or become ineffective as a result of a breakdown in negotiations over employment terms or as a response to a wider climate of union unrest in the UK.

Failure to maintain good relations with the unions could compromise achievement of the Group's strategy and could have a material adverse effect on our business, results of operations and overall financial condition.

How do we manage it?

Change activity is managed through a combination of project/programme boards and regular review at both a business unit and executive level. The current level of restructuring activity also requires us to have in place extensive employee communication and support mechanisms, as well as regular consultation with trade unions and employee representatives.

We continue to invest in the development of all our employees, including technical and behavioural as well as leadership skills. We engage with union representatives on restructuring and issues that might impact employees' terms and conditions, and provide a range of communication channels for our employees to discuss any concerns.

HEALTH, SAFETY AND ENVIRONMENT

What is the risk?

The Group faces four principal categories of Health, Safety and Environment (HSE) risks associated with our operations, namely:

- a major incident at a high-hazard facility resulting in multiple fatalities and injuries;
- a major incident which results in significant environmental damage;
- an incident which results in a fatality or major injury to a member of the public; and,
- an incident that causes a significant number of employee injuries or an employee fatality.

Any of these types of incidents could result in widespread distress and harm, as well as significant disruption to operations and damage to our reputation. In turn, resultant legal action could have an indirect financial impact.

Actual incidents, precautionary closures of plant or a suspension of activities on HSE grounds may lead to loss of production or service and impact our profits. The operations of the Group have many inherent hazards, particularly related to the exploration and production of gas, power generation and offshore activities.

How do we manage it?

Oversight of our HSE risks is provided by the Centrica Board and Executive who continue to consider safety a top priority. We provide regular training to all our employees and colleagues, including those in our customer-facing businesses and those working to ensure the safe operation of our assets.

We remain committed to understanding, managing and reducing the environmental and ecological impacts of our activities through innovation, technology and cultural change.

In 2011, there were additional training and behavioural programmes, as well as a new audit programme in which we partner with third-party consultants to assess compliance and provide assurance to the Board and Audit Committees. These risks are tracked by control effectiveness assessments and performance metrics.

More details on our HSE reporting and activities can be found in the Corporate Responsibility section of the report on pages 34 to 35.

RISKS AND UNCERTAINTIES CONTINUED

INFORMATION SECURITY, INTELLECTUAL PROPERTY AND ASSETS

What is the risk?

Effective and secure information systems (IS) are essential for the efficient management and accurate billing of our customers, effective power generation, and successful energy trading and hedging activities. The confidentiality, integrity and availability of our information systems could be affected by factors that include:

- accidental or deliberate exposure of customer and employee personal data;
- accidental or deliberate changes to financial and other data that we are reliant on to support our business;
- lack of availability of systems due to inadequate infrastructure and data-recovery processes; and,
- an external online attack resulting in an inability to undertake normal business activities and the loss or exposure of personal data, intellectual property or other confidential information, or the disruption of control systems.

Any of these risks could materialise due to inadequate or inconsistent implementation of IS security controls and affect our reputation with current and potential customers. They could cause a breach in regulations which results in legal action against the Group, and outages and interruptions which could affect our ability to conduct day-to-day operations and cause us financial loss.

How do we manage it?

Controls are in place to manage these risks, including network segregation, monitoring, access restrictions on storage systems, regular third-party security reviews and vulnerability assessments of infrastructure and applications. In addition, there is a dedicated Group IS risk team tasked with monitoring and reviewing adherence to the IS risk policy across the Group.

Business continuity plans are in place to help recover from significant outages or interruptions. To improve efficiency, we continue to invest in our systems, supported by strong project management to minimise the associated implementation risk.

In 2011, it became apparent that the threat of cyber attacks against the energy industry had increased to a level previously only experienced by financial institutions and government departments. We are working closely with the UK Government on the exchange of information and threat intelligence between the energy sector and government agencies. We are also working with National Grid to establish an information-sharing node for the energy sector.

SUPPLY CHAIN

What is the risk?

We own a variety of gas and power assets in the UK and North America and also have partner-operated assets overseas. This portfolio continues to grow as we invest capital to secure energy supplies for our customers. There is a risk of terrorist activity, including threats to the energy sector which may include sabotage of power stations, gas platforms or pipelines, which could in turn affect security of supply or cause a break in supply to our customers. Any failure to supply customers could impact negatively on our reputation, the results of operations and our overall financial condition.

We have also outsourced several activities, including IS services, and back office and processing functions that support our businesses in the UK and North America. Some of the Group's outsourcing contracts are in offshore locations such as India, South Africa, Poland and Portugal. Where we depend on these third-parties for certain aspects of our operations, we cannot guarantee the security of these supply chains. Any failure of our outsourcing partners to deliver the appropriate level of service to the Group could have a detrimental impact on our costs, our reputation or our levels of customer service, and could consequently affect the Group's revenues and profits. The Group is also exposed to the performance of existing ageing nuclear power plants; this includes potential losses of production as a consequence of emergent technical issues, component failure, outage over-runs or other operational considerations. In addition, stations may close earlier than expected due to technical problems. Operational problems with the existing fleet of nuclear power stations may result in reduced dividends from the joint venture with EDF Energy and imbalance charges for the Group.

How do we manage it?

We continue to invest in a range of options to ensure a flexible and reliable supply, including the potential development of additional storage facilities.

All new outsourcing and offshoring initiatives have robust project governance and are challenged and reviewed by senior management in business performance reviews. We regularly review country risk and have business contingency plans in place in the event of terrorist activity or adverse social/political events in our offshore locations.

In addition, we have developed a Group approach to managing key-supplier risk and, in light of the continuing global economic conditions, have performed a risk-based review of the financial health of our key outsourcing partners.

The operational performance of our nuclear assets is closely monitored and controlled to ensure we continue to get value for our investment.

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Lynn and Inner Dowsing wind farm, Lincolnshire, England

Governance

BOARD OF DIRECTORS AND SENIOR EXECUTIVES

1. Sir Roger Carr
Chairman (65)

Sir Roger joined the Board as a Non-Executive Director in 2001. He was appointed Chairman of the Board in May 2004 and is Chairman of the Nominations Committee. During 2011, he was appointed president of the CBI and a member of the UK Prime Minister's Business Advisory Group. He remains deputy chairman and senior independent director of the Court of the Bank of England and is also a senior adviser to Kohlberg Kravis Roberts. He has previously held a number of senior appointments including chairman of Mitchells & Butlers plc and Cadbury plc. He is a fellow of the Royal Society for the encouragement of the Arts, Manufacturers and Commerce and a visiting fellow to the Said Business School, Oxford. Throughout his career he has served on a number of external committees including the Higgs Committee on Corporate Governance and Business for New Europe.

2. Sam Laidlaw
Chief Executive (56)

Sam joined Centrica as Chief Executive in July 2006. He is Chairman of the Executive Committee and the Disclosure Committee. In January 2008, he was appointed a non-executive director of HSBC Holdings plc and in December 2010 he was appointed as the lead non-executive director on the board of the Department for Transport. He is also a member of the UK Prime Minister's Business Advisory Group. Previously he was executive vice president of the Chevron Corporation, chief executive officer at Enterprise Oil and president and chief operating officer at Amerada Hess. He is a trustee of the medical charity RAFT.

3. Dame Helen Alexander DBE
Non-Executive Director (55)

Dame Helen joined the Board in January 2003 and stepped down on 31 December 2011. She was Chairman of the Remuneration Committee. At the date of her departure, she was deputy chairman of Esure Group Holdings Ltd, chairman of the Port of London Authority and of Incisive Media and senior adviser to Bain Capital. She was deputy president of the CBI and a non-executive director of Rolls Royce plc. She was also chancellor of the University of Southampton. She was chief executive of the Economist Group until 2008, having joined the company in 1985.

4. Phil Bentley
Managing Director, British Gas (53)

Phil joined Centrica as Group Finance Director in 2000, a position he held until the end of February 2007 when he was appointed Managing Director, British Gas. He was also Managing Director, Europe between July 2004 and September 2006. Formerly, he was finance director of UDV Guinness from 1999 and group treasurer and director of risk management of Diageo plc from 1997. Previously, he spent 15 years with BP plc in various international oil and gas exploration roles. Until March 2010, he was also a non-executive director and the chairman of the audit committee of Kingfisher plc.

5. Margherita Della Valle
Non-Executive Director (46)

Margherita joined the Board in January 2011 and is Deputy Chairman of the Audit Committee. In October 2010 she was appointed group financial controller of Vodafone Group Plc, prior to which she was chief financial officer for the group's European region from April 2007 to October 2010 and chief financial officer of Vodafone Italy from 2004 to 2007. Previously she joined Omnitel Pronto Italia in Italy in 1994 and held various consumer marketing positions in business analytics and customer base management prior to moving to finance. Omnitel was acquired by Vodafone Group in 2000.

6. Mary Francis CBE
Senior Independent Director (63)

Mary joined the Board in June 2004 and is Senior Independent Director, Chairman of the Corporate Responsibility Committee and Deputy Chairman of the Nominations Committee. She is a non-executive director of Aviva plc and Cable & Wireless Communications Plc, a senior adviser to Chatham House and chair of governors of James Allen's Girls' School. She is a former director general of the Association of British Insurers, a former non-executive director of the Bank of England, Alliance & Leicester plc and St. Modwen Properties plc and was a senior civil servant in the Treasury and the Prime Minister's Office.

7. Mark Hanafin
Managing Director, Centrica Energy (52)

Mark joined Centrica as Managing Director, Centrica Energy in July 2008. He was appointed as a non-executive director of EDF Energy Nuclear Generation Group Limited in November 2009. Previously he spent 21 years with Royal Dutch Shell, most recently as CEO of Shell Energy North America in Houston. Prior to joining Shell, he worked for General Electric Company (GEC) having qualified as a chartered engineer.

8. Lesley Knox
Non-Executive Director (58)

Lesley joined the Board on 1 January 2012 and is Chairman of the Remuneration Committee. She is chairman of Alliance Trust Plc, non-executive director of SABMiller Plc and is a trustee of the Grosvenor Estates and chairman of Grosvenor Group Limited. She was previously with British Linen Bank in 1997, becoming governor in 1999, and was subsequently a founder director of British Linen Advisers from 1999 to 2003. She was previously senior non-executive director of Hays Plc and also spent 15 years with Kleinwort Benson from 1981 to 1996, first in corporate finance and then as chief executive of the institutional asset management business.

Board Members Senior Executives

Governance

9. Nick Luff

Group Finance Director (44)

Nick joined Centrica as Group Finance Director in March 2007. He was previously chief financial officer of The Peninsular & Oriental Steam Navigation Company (P&O) and has held a number of other senior financial roles at P&O, having qualified as a chartered accountant at KPMG. Until December 2010 he was a non-executive director of QinetiQ Group plc.

10. Andrew Mackenzie

Non-Executive Director (55)

Andrew joined the Board in September 2005. In November 2007, he was appointed group executive and chief executive of Non Ferrous at BHP Billiton, a position he took up in November 2008. From 2004, he was with Rio Tinto, latterly as chief executive of Diamonds and Minerals. Previously, he spent 22 years with BP plc in a range of senior technical and engineering positions and ultimately as group vice president, BP Petrochemicals.

11. Ian Meakins

Non-Executive Director (55)

Ian joined the Board in October 2010. In July 2009 he joined Wolseley plc as chief executive. He was previously chief executive of Travelex Holdings Limited and for two years prior to that he was CEO of Alliance Unichem plc until their merger with Boots in 2006. He spent 12 years with Diageo including four years as president European major markets and global supply, his early career was with Procter and Gamble.

12. Paul Rayner

Non-Executive Director (57)

Paul joined the Board in September 2004 and is Chairman of the Audit Committee. In 2008, he was also appointed a non-executive director of Qantas Airways Limited and Boral Limited and in May 2011 he was appointed as a non-executive director of Treasury Wine Estates Limited in Australia. He was finance director of British American Tobacco plc from 2002 until April 2008. In 1991 he joined Rothmans Holdings Limited in Australia, holding senior executive appointments, and became chief operating officer of British American Tobacco Australasia Limited in September 1999.

13. Chris Weston

Managing Director, North America (48)

Chris was appointed to the Board in July 2009 upon his appointment as Managing Director, North America. He was previously Managing Director, British Gas Services from June 2005. Prior to this, he was Managing Director, British Gas Business from January 2002. He joined Centrica in November 2001, following the acquisition of One Tel where he was the Managing Director of Europe. Previously, he worked for Cable & Wireless and also spent seven years in the army with the Royal Artillery.

SENIOR EXECUTIVES

14. Grant Dawson

General Counsel & Company Secretary (52)

Grant has been General Counsel & Company Secretary of Centrica since the demerger from British Gas plc in February 1997, having joined British Gas in October 1996.

15. Catherine May

Group Director, Corporate Affairs (47)

Catherine joined Centrica as Group Director, Corporate Affairs in September 2006, having previously been group director of corporate relations for Reed Elsevier. She left Centrica at the end of 2011.

16. Jill Shedden

Group Director, Human Resources (46)

Jill was appointed Group Director, Human Resources on 1 July 2011 following the retirement of Anne Minto. Previously she was HR Director for Centrica Energy. She joined British Gas plc as a graduate in 1988 and has since held a wide range of roles across the Group including HR Director for British Gas Business and British Gas Residential.

COMMITTEE MEMBERSHIP

	Audit	Rem*	Noms*	CR*	Exec*	Dis*
Sir Roger Carr		Member	Chairman			
Sam Laidlaw			Member	Member	Chairman	Chairman
Phil Bentley				Member	Member	
Margherita Della Valle	Member	Member	Member	Member		
Mary Francis CBE	Member	Member	Member	Chairman		
Mark Hanafin					Member	
Lesley Knox	Member	Chairman	Member			
Nick Luff					Member	Member
Andrew Mackenzie		Member	Member	Member		
Ian Meakins	Member	Member	Member			
Paul Rayner	Chairman	Member	Member			
Chris Weston				Member	Member	
Grant Dawson				Member	Member	Member
Jill Shedden					Member	

* Remuneration, Nominations, Corporate Responsibility, Executive, Disclosure

● Chairman ● Member

CORPORATE GOVERNANCE REPORT

Centrica has a well established and hard earned record of sound corporate governance which is woven into the culture of the organisation rather than a 'box ticking' response to code and regulation.

Sir Roger Carr
Chairman

Throughout the year, the Company complied fully with the provisions set out in the UK Corporate Governance Code (the Code) issued in June 2010. This report explains how the Board applied the principles of the Code during 2011.

The Chairman's Statement on pages 2 to 4 discusses the Company's current approach to Board composition, diversity and succession planning whilst details of the Company's business model and strategies for delivering objectives are set out in the Business Review on pages 5 to 40.

Looking forward, the Board will be required to report against the updated UK Corporate Governance Code to be issued in 2012 and will, of course, retain a keen and watchful eye on the issues and developments affecting the UK corporate governance arena.

THE BOARD

Board of Directors

The Board believes that good corporate governance contributes to Centrica's performance. A clearly defined framework of roles, responsibilities and delegated authorities is in place and this supports the Board's aim to deliver sustainable growth for the benefit of shareholders, employees and customers. As evidenced by the recent independent Board evaluation, the Directors consider that the Board leads and controls the Group effectively, has a robust governance structure and that no individual or small group of individuals dominate the Board's decision-making.

The powers of the Directors are set out in the Company's Articles of Association (Articles), which are available on the Company's website. The Articles may be amended by special resolution. In addition, the Directors have responsibilities and duties under other legislation, in particular the Companies Act 2006.

The Board has a schedule of matters specifically reserved for its approval which it reviewed against best practice in July 2011 and approved minor changes. A summary is shown below and the full schedule is available for inspection on the Company's website.

The Board is responsible for:

- development of strategy and major policies;
- the Group's corporate governance and system of internal control;
- reviewing performance;
- approving interim dividend payments and recommending final dividend payments;
- approval of the annual operating plan, financial statements and major acquisitions and disposals;
- the Group's corporate responsibility arrangements including health, safety and environmental matters; and
- the appointment and removal of Directors and the Company Secretary.

The Board recognises that its Non-Executive Directors have other interests outside of Centrica and so, each year, the Chairman and each Non-Executive Director provide assurance to the Board that they remain fully committed to their respective roles. The Board considers these assurances and is satisfied that each can dedicate the necessary amount of time to attend to the Company's affairs.

Board meetings

The Board holds regular scheduled meetings throughout the year and in 2011 there were eight scheduled meetings of the Board.

The Board continuously assesses and reviews key priorities and business issues for the Group over the short, medium and longer term. Comprehensive papers are presented to the Board which facilitates meaningful debate on the performance and future direction of the Company.

All Directors are expected to attend all Board and relevant Committee meetings. Details of attendance by Directors at Board and Committee meetings during 2011 are set out in the table on page 45. Where a Director was not in attendance, this was due to other prior work commitments. Directors who were unable to attend specific Board or Committee meetings reviewed the relevant papers and provided their comments to the Chairman of the Board or Committee, as appropriate. In addition, any Director who misses a meeting will, as a matter of course, receive the minutes of that meeting for future reference.

WHAT GOOD GOVERNANCE MEANS TO CENTRICA

	Board	Committees: Audit	Rem*	Noms*	CR*	Overall Attendance (%)
Number of meetings	**8**	**4**	**5**	**4**	**3**	
Sir Roger Carr	8		5	4		100%
Sam Laidlaw	8			4	3	100%
Dame Helen Alexander	8	3	5	4		95%
Phil Bentley	8				2	91%
Margherita Della Valle(i)	8	4	5	4	1	100%
Mary Francis	8	4	5	4	3	100%
Mark Hanafin	8					100%
Nick Luff	8					100%
Andrew Mackenzie(ii)	6	1	5	3	3	86%
Ian Meakins(iii)	5	3	4	2		67%
Paul Rayner	8	4	5	4		100%
Chris Weston	8				3	100%

* Remuneration, Nominations and Corporate Responsibility

(i) Margherita Della Valle joined the Corporate Responsibility Committee in September 2011 and attended one remaining Committee meeting of the year.

(ii) Andrew Mackenzie attended one meeting of the Audit Committee before he stepped down as a member.

(iii) Ian Meakins was not in attendance at some Board and Committee meetings during the year due to work commitments agreed prior to his appointment as a Director of the Company.

As part of its responsibilities, the Board approves and monitors the development of the Group's strategy. In addition to the scheduled Board meetings, each year the Board holds a conference devoted specifically to strategy. In 2011, the Board conference focused on some of the key strategic issues facing Centrica, including:

- growth opportunities within British Gas;
- delivering value from the upstream business;
- long-term growth in North America;
- gas storage strategy;
- political and regulatory risks; and
- the Group's financial profile and controls.

Board constitution and appointments

The Board comprises a good balance of Executive Directors and independent Non-Executive Directors which promotes thorough consideration of the important issues facing Centrica and the Group's performance. The roles of Chairman and Chief Executive are separate, formalised in writing and have been approved by the Board. They are available on the Company's website, together with an explanation of the roles of the Non-Executive Directors.

As discussed in the Chairman's Statement, the Non-Executive Directors play a key governance role and bring an external view to the Board's deliberations through their knowledge, experience and insight from other sectors. As part of its annual review of corporate governance, the Board considered the independence of each Non-Executive Director, other than the Chairman, against the criteria in the Code and determined that each Non-Executive Director remained independent. During the year the Non-Executive Directors, including the Chairman, met independently of management. In addition, the Senior Independent Director met with the independent Non-Executive Directors in the absence of the Chairman to appraise the Chairman's performance.

A formal, rigorous and transparent process is followed during the selection and subsequent appointment of new Directors to the Board. This process is described in the section on the Nominations Committee on page 48. Recent changes to the composition of the Board are set out in the table below:

Dame Helen Alexander	Non-Executive Director	Resigned	31 December 2011
Lesley Knox	Non-Executive Director	Appointed	1 January 2012

The Companies Act 2006 and the Articles require the Board to consider any potential conflicts of interests. The Board considers and, if appropriate, authorises each Director's reported actual and potential conflicts of interest regularly. The conflicts of interest register was reviewed by the Board four times during 2011. Each Director abstained from approving their own reported conflicts.

The Board has agreed that each Director shall stand for re-appointment at each Annual General Meeting (AGM).

CORPORATE GOVERNANCE REPORT CONTINUED

Details of the Directors of the Company, including their biographies and their Board Committee memberships, are set out on pages 42 and 43. Details of Directors' service contracts or letters of appointment, in the case of Non-Executive Directors, emoluments and share interests are set out in the Remuneration Report on pages 52 to 63.

Directors' indemnities and insurance

In accordance with the Articles, the Company has granted a deed of indemnity, to the extent permitted by law, to Directors and the General Counsel & Company Secretary. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2011 and remain in force. The Company also maintains directors' and officers' liability insurance for its Directors and Officers.

BOARD PERFORMANCE

Board evaluation

The Board considers the annual review of the Board, its Committees and Directors as an essential part of good corporate housekeeping, with the use of an external facilitator at least once every three years. During Sir Roger's time as Chairman, the Company has employed JCA Group and Egon Zehnder on two occasions and this year, Independent Board Evaluations (IBE) to bring a fresh pair of eyes to the appraisal. IBE have no other connections with the Company. On each occasion, the Board has received positive reports and has adopted recommendations to improve Board, Committee and individual director performance. This year, IBE observed a Board meeting as well as meetings of the Audit and Nominations Committees and conducted face-to-face interviews with each of the Directors to get a detailed understanding of how well the Board operates. The scope of the evaluation was to assess how well the Board and its Committees operated as a unit and individually. The evaluation covered key governance areas such as shareholder accountability, strategy, risk management, Board composition and succession planning and Board culture and decision-making. A comprehensive analysis was then presented to the Board. For 2011, the findings continued to be positive and recommendations were aimed at 'making a good board great'. These suggestions included making more time in regular Board meetings for strategic debate and encouraging Executive Directors to speak more often outside their areas of specific expertise. The Board and each of its Committees have already started to make progress against the findings and the Board will conduct a review against these objectives at the mid-year.

During 2011, the Board progressed the issues identified in the 2010 internal evaluation, summarised in last year's Annual Report, through both the regular Board and Committee meetings and as part of the annual Board strategy conference.

Board development

All new Directors appointed to the Board receive a comprehensive induction programme tailored to meet their individual needs. The Chairman and General Counsel & Company Secretary are responsible for delivering an effective induction programme for newly appointed Directors.

Lesley Knox, recently appointed to the Board, discussed with the General Counsel & Company Secretary what briefings and meetings would most be of benefit to her to ensure an effective induction. As a result, an induction programme has been specifically tailored for Lesley Knox to include briefings from members of the Executive Team on key areas of the business including the internal audit function, an overview of the Group's risk management processes, the key risks facing the business and a briefing in respect of the corporate governance framework within Centrica. Lesley was also provided with recent broker reports on the Company. In addition, and as a key part of her induction, Lesley attended the annual Board strategy conference held at the end of October 2011 and an investor day for institutional investors and analysts held in December 2011 which focused on Centrica Energy.

Ongoing development and training is also provided to all Directors at Board and Committee meetings. During the year, Directors received regular updates and presentations on changes and developments to the business and to the legislative and regulatory environments in which the Group operates. In particular, the Board was briefed on the following key issues during 2011:

- the competitive landscape and market conditions for energy prices;
- the legal and regulatory changes and their impact on the industry;
- the consequences on the industry following the natural disasters in Japan and the subsequent Fukushima nuclear incident;
- health, safety and environmental strategy and governance;
- the UK power generation market;
- customer insight;
- the corporate responsibility strategy;
- acquisitions and investments; and
- corporate governance developments.

In addition, the Directors visited Direct Energy's offices in Houston in March 2011 for presentations on the North American environment, management priorities, performance, outlook and strategy and to undertake site visits.

The Directors have full access to the advice and services of the General Counsel & Company Secretary, who is responsible for advising the Board through the Chairman on corporate governance matters. They are also able to seek independent professional advice at the Company's expense in respect of their duties.

BOARD COMMITTEES

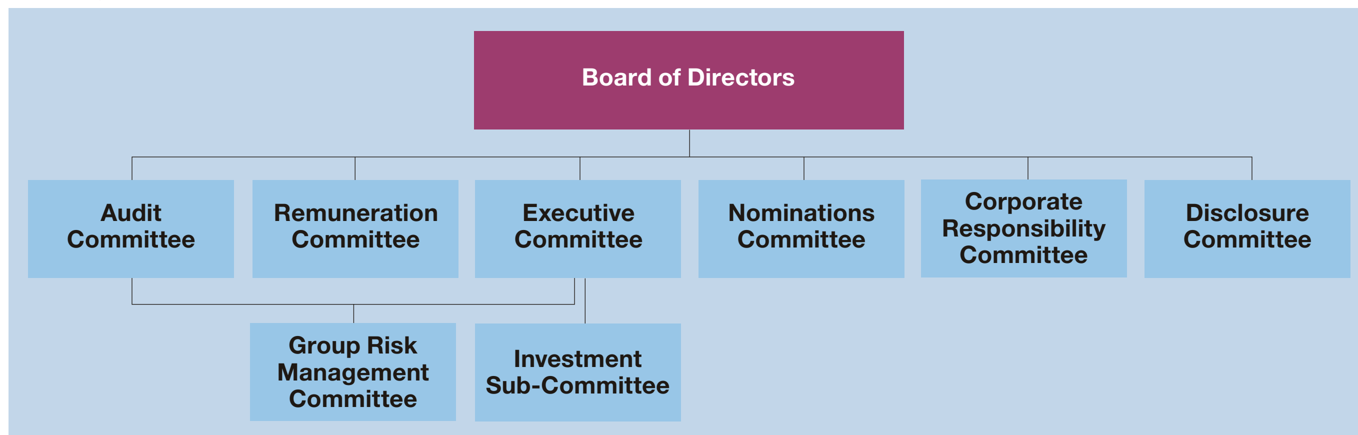
The Board operates six Committees to oversee the standards of the Group: Audit, Nominations, Remuneration, Corporate Responsibility, Executive and Disclosure. Each Committee is chaired professionally and rigorously and populated by an appropriate mix of Executive and Non-Executive Directors. The Committees are supported in the same way as the Board in order to ensure information flows in a timely, accurate and complete manner. All of the independent Non-Executive Directors are members of the Audit, Remuneration and Nominations Committees, with the exception of Andrew Mackenzie who stepped down as a member of the Audit Committee in 2011. The Board reviews annually each Committee's terms of reference

and membership against best practice as well as taking into account any relevant changes in circumstances. In July 2011, revised terms were approved for the Remuneration and Audit Committees and in February 2012 for the Executive Committee. The full written terms of reference for the Committees can be found on the Company's website and hard copies are available upon request.

Minutes of Committee meetings are made available to all Directors and the Chairmen of each of the Board Committees provide updates to the Board.

A chart setting out the Company's Board and Executive Committees' structure is set out below with Committee membership and Directors' biographical details shown on pages 42 and 43. The responsibilities of each Board Committee and the key issues considered by each one during 2011 are set out in the following Committee reports.

Board governance structure



Audit Committee

Chaired by Paul Rayner, the key function of the Audit Committee is to review the effectiveness of the Company's financial reporting and internal controls together with the procedures for the identification, assessment and reporting of risks. In accordance with the Code, Paul Rayner and Margherita Della Valle are identified as having recent and relevant financial experience. The Board has determined that each member of the Committee is independent.

Audit Committee responsibilities

The Committee is authorised by the Board to:

- monitor the integrity and audit of the Company's Financial Statements;
- review the Company's internal financial controls, internal control and risk management systems;
- monitor and review the effectiveness of the Company's internal audit function;
- establish and oversee appropriate whistleblowing and fraud prevention arrangements within the Company; and
- establish and oversee the Company's relationship with the external auditors, including the engagement of the external auditors to supply non-audit services and the monitoring of their independent status and effectiveness.

Key issues reviewed by the Audit Committee

The Committee considered a number of key issues during the year, including:

- critical accounting judgements (detailed in note 3 of the Financial Statements on page 71) in relation to the impairment reviews of Power Stations, Upstream Oil and Gas assets, planned Gas Storage facilities, Nuclear new build investment and Goodwill;
- onerous provision assessments for the Rijnmond power station operating lease, European gas transportation contracts and North American wind farm power purchase agreements;
- Directors' judgements that the exceptional items (detailed in note 7 of the Financial Statements on page 80) are non-recurring and, by their nature, warrant exceptional classification;
- UK pension fund investments and the pension curtailment;
- effectiveness of internal controls and governance structures in light of the revised Turnbull guidance;
- Internal Audit strategy, effectiveness and scope of activities to be undertaken;
- independence, objectivity and fees of the external auditors;
- scope of audit and non-audit services provided by the external auditors; and
- ongoing compliance with the undertakings in respect of Centrica Storage Limited and compliance reporting across the Group in particular.

The Committee also considered a report prepared by Independent Audit Ltd following their effectiveness review of Internal Audit. Whilst this was generally complimentary, a number of actions were agreed by the Committee to seek continuous improvement.

The Committee members also participated in two training sessions during the year, one of which, facilitated by PricewaterhouseCoopers LLP (PwC), focused on the bespoke controls training programme rolled out across the Group and the other was conducted by Direct Energy's senior management team on their midstream and trading risks.

The scope, fee, performance and independence of the external auditors are considered annually by the Committee. To assess the effectiveness of the external auditors, the Committee considered:

- feedback on the audit process gathered through a survey;
- the fulfilment of the external audit plan and any variations;
- the external auditors' qualifications and resources;
- the robustness of the auditors in their handling of key accounting and audit judgements; and
- the insightfulness of recommendations included in the external auditors' internal control report.

CORPORATE GOVERNANCE REPORT CONTINUED

The Board considers it of prime importance that the external auditors remain independent and objective and as a safeguard against this being compromised, the Committee has adopted and is responsible for the development, implementation and monitoring of the Group's policy on the independence of external auditors, a copy of which is available on the Company's website. Reviewed annually, the Group's policy details the appointment of external auditors, the setting of audit fees and the rotation of audit partner and staff. The policy also restricts the types of non-audit work that can be undertaken by the external auditors and restricts the employment by the Group of former employees of the external auditors. The award of non-audit work, within categories that the external auditors are permitted to carry out under the Board approved policies, is subject to pre-clearance by the Committee if the fee exceeds specified thresholds. In addition, the Committee was provided with reports of all non-audit assignments awarded to the external auditors and, on a regular basis, a full breakdown of non-audit fees incurred during the year. A summary of fees paid to the external auditors and the Group's policy to seek competitive tenders for all major consultancies and advisory projects is set out in note 33 to the Financial Statements on page 107.

In accordance with International Standards on Auditing (UK & Ireland) 260 and Ethical Statement 1 issued by the Accounting Practices Board, and as a matter of best practice, the external auditors have confirmed their independence as auditors of the Company, in a letter addressed to the Directors.

PwC has been the external auditor of the Group since the demerger of Centrica in 1997. The Committee makes recommendations through the Board to the shareholders to consider at the AGM, or at any time during the year, on the appointment, re-appointment or removal of the external auditors. There are no contractual obligations restricting the Group's choice of external auditors. Following the above review and having given full consideration to the performance and independence of the external auditors, the Committee considered that a tender process was not required. Accordingly, the Committee has recommended to the Board that a resolution to re-appoint PwC be proposed at the 2012 AGM and the Board has accepted and endorsed this recommendation.

Nominations Committee

Chaired by Sir Roger Carr, the Committee has focused on Board composition and refreshment during 2011 with diversity a key theme. These issues are discussed more fully in the Chairman's Statement on pages 2 to 4.

Nominations Committee responsibilities

The primary responsibilities of the Committee are to:

- make appropriate recommendations to the Board for the appointment, re-appointment or replacement of Directors;
- devise and consider succession planning arrangements for Directors and other senior executives; and
- regularly review the structure, size and composition of the Board and to recommend any proposed changes to the Board.

Key issues reviewed by the Nominations Committee

The Committee met on four occasions during the year and considered the proposed appointment of Lesley Knox and resignation of Dame Helen Alexander, as discussed in the Chairman's Statement on pages 2 to 4. In making its appointment recommendations to the Board, the Committee reviews the overall balance of skills, knowledge and experience on the Board against current and future requirements of the Company and, as appropriate, draws up a list of required candidate attributes.

In addition to Lesley Knox's appointment, the Committee also considered:

- Board committee memberships and succession planning for the Board, including a review of Non-Executive Directors whose length of service was more than six years;
- the Davies review into Women on Boards and Centrica's response to this review, which was published in an announcement in July 2011 and underscores the Board's commitment to diversity as discussed in the Chairman's Statement. The Committee noted the voluntary code of conduct for executive search firms to address gender diversity on corporate boards and best practice search criteria for directors; and
- the diversity programme across the Group, discussed in greater detail in the Chairman's Statement on pages 2 to 4 and the Corporate Responsibility Report on pages 29 to 35.

In addition, the Committee met with the Chief Executive and the Group Director, Human Resources to undertake an annual succession review for senior management.

Remuneration Committee

A report detailing the responsibilities and work carried out by the Remuneration Committee during the year, including an explanation of how it applies the principles of the Code in setting Executive Directors' remuneration, is included within the Remuneration Report on pages 52 to 63.

Corporate Responsibility Committee

A report detailing the responsibilities and work carried out by the Corporate Responsibility Committee during the year is included within the Corporate Responsibility Report on pages 29 to 35.

Executive Committee

The Executive Committee is responsible for the day-to-day management of the Group's operations within the limits set out in the Group's delegation of authority. The Committee also has a schedule of matters specifically reserved for its approval.

During 2011, the Committee delegated certain tasks to the following sub-committees and received regular updates from each one: Group Risk Management Committee; Health, Safety & Environment Committee (HS&E); and Investment Sub-Committee.

The Committee recently reviewed and clarified the roles and responsibilities for the HS&E. The Executive Committee retains direct responsibility for HS&E policies and standards and their review, whilst the HS&E itself has been replaced by a working group which will focus on specific HS&E issues and practice.

Disclosure Committee

The Disclosure Committee met on a number of occasions during the year and is responsible for implementing and monitoring systems and controls in respect of the management and disclosure of inside information. The Committee is also responsible for ensuring that regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company comply with any applicable legal or regulatory requirements.

RELATIONS WITH SHAREHOLDERS

The Board recognises and values the importance of maintaining an effective investor relations and communication programme. The Board is proactive in obtaining an understanding of shareholder views on a number of key matters affecting the Group and receives formal investor feedback regularly.

During 2011, Centrica hosted three investor days, focusing on the Group's strategy, objectives and operational progress for each of Direct Energy, British Gas and Centrica Energy. Attended by both Executive and Non-Executive Directors, the presentations were made to institutional investors and analysts, including representatives of many of the Group's largest shareholders. The presentation materials are also available on the Company's website.

The Chief Executive and Group Finance Director also held regular meetings with the Company's major shareholders during the year. The Chairman and the Senior Independent Director attended the meetings at which the annual and interim results were presented to major investors and analysts. The Chairman continues to meet major institutional shareholders regularly in order to gain a first-hand understanding of their concerns and key issues and provides regular updates to the Board. In addition, the Board receives annually an Investor Perception Survey which covers strategy, management, investment approach, valuation, business performance and balance sheet management.

The Company's AGM provides all shareholders with the opportunity to develop further their understanding of the Company. Shareholders can ask questions of the full Board on the matters put to the meeting, including the Annual Report and the running of the Company generally. The Company intends to send to shareholders the Notice of AGM and any related papers at least 20 working days before the meeting. All Directors are invited to attend each AGM. At the AGM, the Chairman and the Chief Executive present a review of the Group's business. A poll is conducted on each resolution at all Company general meetings. All shareholders also have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and are available on the Company's website.

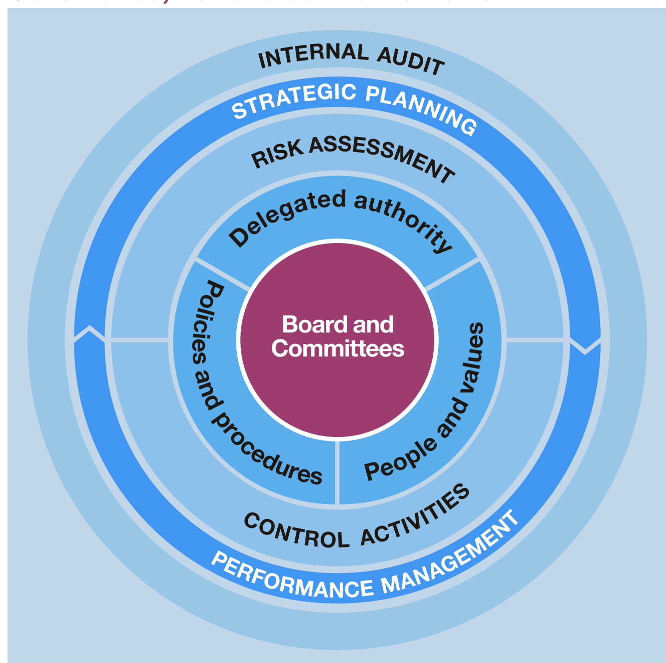
Mary Francis, the Senior Independent Director, is available to shareholders if they have concerns that contact through the normal channels has either failed to resolve or is deemed inappropriate.

Centrica's website contains up-to-date information for shareholders and other interested parties including Annual Reports, shareholder circulars, share price information, news releases, presentations to the investment community and information on shareholder services.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and risk management and considers this to be fundamental to the achievement of the Group's strategic objectives.

Governance, risk and control framework



The above diagram shows some of the key elements in the governance, risk and control framework by which Centrica's operations are conducted. The work of the Board and its Committees are at the heart of the process. The Board and its Committees set objectives, performance targets and policies designed to achieve a balanced and transparent assessment of the risks facing the Group's operations and to measure the effectiveness of the key controls in place to manage them. The work of the Board is underpinned by clear delegations of authority, effective policies and procedures covering key areas of Group operation together with a set of business principles and processes which are communicated to Centrica's staff.

In addition, mechanisms are in place to ensure that both strategic and operational risks are identified and assessed and that the controls designed to manage such risks are operating effectively. These mechanisms are reinforced through regular performance management and business reviews.

Lastly, it is important that the effectiveness of the framework is assessed impartially. There is, therefore, a programme of independent reviews by the internal audit function which is designed to cover the key processes and risks.

As with any such system, the processes are designed to manage rather than eliminate the risk of failure to achieve the objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Details of the Group's principal risks and uncertainties are set out in pages 36 to 40 of the Business Review.

2011 developments

Centrica took a number of steps to improve the risk reporting process in 2011 and reinforce the linkage between risk and controls. These included:

- reporting of risks and audit activity against the risk themes;
- upgrade of the Group's risk assessment matrices;
- introduction of new red/amber/yellow/green controls guidance;
- endorsement of the updated business risk policy and standards; and
- increased focus on tracking of mitigating actions.

Centrica believes that the above steps will help maintain good governance for the business going forward.

CORPORATE GOVERNANCE REPORT CONTINUED

Group risk governance structure

Group Risk Management Committee

The Group Risk Management Committee (GRMC) plays a pivotal role in the governance of risks. Each of Centrica's business units has a Business Risk Management Committee or equivalent management committee whose role is to evaluate, report and advise on material risks and to consider the adequacy of controls and the actions planned to mitigate those risks. The most material risks are then reported to the GRMC so that it has a clear understanding of Centrica's aggregate risk profile and can ensure that control processes are in place for the monitoring and management of significant risks. During 2011, the GRMC was chaired by the Group Finance Director and membership included senior management covering business units and corporate functions. The GRMC met four times in 2011. Recent changes to the governance of the GRMC for 2012 mean that the Committee is now chaired by the Group Chief Executive and the membership reflects that of the Executive Committee.

Group Financial Risk Management Committee

A separate specialised process to manage financial risks is also required to achieve adequate levels of control. The role of the Group Financial Risk Management Committee (GFRMC) is therefore to focus specifically on financial risks as part of the overall risk management profile.

Additional monitoring of the Group's financial risks (market, credit and liquidity risks) is performed by local Financial Risk Management Committees covering Europe and North America. Material financial risk exposures are then reported to the GFRMC for consideration. The GFRMC also monitors the design and implementation of financial risk policies and compliance with Group-wide financial risk limits and appetite. Quarterly overviews of the GFRMC's activities are provided to the GRMC.

The GFRMC is chaired by the Group Finance Director and membership comprises senior finance and risk personnel. The Committee met 11 times in 2011, plus one special meeting to discuss Direct Energy's options strategy. Further details of the Group's Financial Risk Management are provided in note S3 to the Financial Statements on page 117.

Centrica Controls Board

The Centrica Controls Board, whose members are the Group Finance Director, the Director of Corporate Finance, the Head of Audit & Risk and finance directors for each business unit, is responsible for ensuring that appropriate internal controls are in place over key operational and financial reporting processes and related IT systems. During 2011, the Controls Board also reviewed the controls strategy for the Group.

The responsibilities of the Centrica Controls Board are discharged through the Centrica Controls Steering Group (CCSG) and the Information Risk Steering Group (IRSG).

The CCSG monitors the risks and associated controls over financial reporting processes, including the process by which Centrica's Group Financial Statements are prepared for publication (the consolidation process). The financial reporting controls are monitored and maintained through the use of internal control frameworks which address key financial reporting risks, including risks arising from changes in the business or accounting standards. Effectiveness is assessed through quarterly self-certification and independent testing of the controls. The CCSG met twice during 2011 and is chaired by the Head of Information Risk.

The IRSG monitors the Group's information systems control environment, providing robust challenge to the business units to ensure that information systems' risk management remains effective and appropriate for the Group. It is also responsible for monitoring the progress of key information security projects. The IRSG met twice during 2011 and is chaired by the Chief Information Officer.

Executive Committee and Audit Committee

The Group's material risks are also reported to the Executive Committee which regularly undertakes in depth reviews of specific risks as appropriate.

At each of its meetings in 2011 the Audit Committee received a Group risk report, which provided an assessment of the key risks facing the Company and the adequacy of the associated controls. In addition, the Audit Committee assessed the activity of the Group internal audit function including details of findings from reviews conducted against a plan which is approved annually by the Audit Committee. These reports, supplemented by management presentations and discussion with the Audit Committee, enable it to track issues, monitor performance and ensure that necessary actions are taken to remedy any significant failings or weaknesses identified.

The Company is also aware that the integrity and reputation of the Company's public financial reporting is of utmost importance. In addition to the controls described above, there are a number of further processes and steps to provide assurance over the completeness and accuracy of Centrica's public financial reporting, including:

- review by members of the Executive Committee;
- verification exercises;
- review and recommendation by the Audit Committee; and
- review and approval by the Board.

Centrica Storage and other Group companies

Centrica Storage Limited, which is subject to undertakings given to the Secretary of State for Business, Innovation & Skills, operates separately but to the same standards of internal control and risk management as the rest of the Group. The internal control and risk management processes of newly-acquired companies are also integrated with those of the Group.

The Board's review of the system of internal control

Each year, an extensive process of self-certification operates throughout the Group whereby the effectiveness of internal controls and compliance with Group business principles and policies are assessed. In 2011, the self-certification was completed both at the half year and full year. The results of the annual process, together with the conclusions of the internal reviews by Internal Audit, inform the annual assessment performed by the Audit Committee.

The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the system of internal control, for the period from 1 January 2011 to the date of this report, and is satisfied that the Group complies with the Turnbull Guidance. The Board will continue routinely to challenge management in order to ensure that the system of internal control is constantly improving and remains fit for purpose.

GOING CONCERN

After making enquiries, the Board has a reasonable expectation that the parent company and the Group as a whole has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Board continues to adopt the going concern basis in preparing the Financial Statements. Further details of the Group's liquidity position and going concern review are provided in note 25 of the Financial Statements on page 98.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors, who are named on pages 42 and 43, are responsible for preparing the Annual Report, the Directors' Remuneration Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group Financial Statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the parent company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRS as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and parent company Financial Statements respectively; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Furthermore, the Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed in pages 42 and 43 confirm that, to the best of their knowledge the Group Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group. In addition, they confirm that the Directors' Report contained in pages 2 to 63, together with other disclosures given on page 138, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and that they have taken all steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

INDEPENDENT AUDITORS

PwC have expressed their willingness to be re-appointed as auditors of the Company. Upon the recommendation of the Audit Committee, separate resolutions to re-appoint them as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the forthcoming AGM.

The Directors' Report for the year comprising pages 2 to 63 together with other disclosures given on page 138 have been approved by the Board and signed on its behalf by:

Grant Dawson
General Counsel & Company Secretary
23 February 2012

Registered office:

Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

Company registered in England and Wales No. 3033654

REMUNERATION REPORT

On behalf of the Board, I am pleased to present the Remuneration Committee's Report for 2011. At the beginning of the year, the Committee set challenging performance targets and the management team has made good progress. The Committee is satisfied that the resulting incentive awards appropriately reflect the results achieved.

Lesley Knox
Chairman of the Remuneration Committee

During the latter part of 2010 and early 2011, the Remuneration Committee reviewed the Group's executive remuneration framework, to consider how it might be adapted to better support the Company's evolving business strategy.

The proposals received broad support from major shareholders but, as world events unfolded during early 2011, the Committee decided that it was not an appropriate time to settle on new forward looking arrangements. The Committee recognises that change of this nature should not be a frequent occurrence and, therefore, sought further time to ensure any proposals would be appropriate for the foreseeable future.

During the last quarter of 2011, the Committee revisited the reward structure in light of the development of the Centrica business model and evolving best practice.

The Committee was concerned that the current scheme which is weighted towards Earnings Per Share (EPS) growth did not sufficiently take into account the increased capital intensity of the business as it moves towards a more vertically integrated structure. The Committee also felt that the scheme was driven exclusively by financial metrics and did not acknowledge the other key drivers of sustained performance, including customer perceptions and service levels, employee engagement and health & safety.

Accordingly, the Committee has reviewed the structure of the current scheme and proposed modifications to measurement and weighting of the key performance drivers. These performance drivers are relevant to the current business structure and provide a clear line of sight to management.

The revised scheme has focused on the following points of good governance:

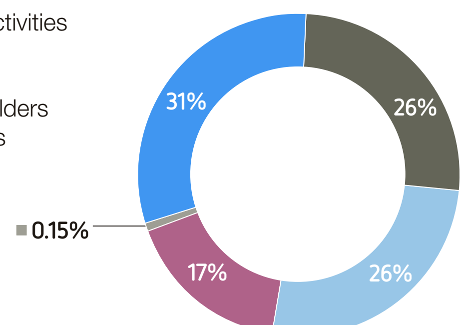
- the total variable earnings that may be achieved from the proposed modified scheme are capped at the maximum level of earnings from the existing scheme;
- targets are stretching and aligned with the Group's strategic priorities;
- the key performance drivers will be based on simple measurements that are reported transparently;
- the scheme will maintain the practice of substantial deferral of short-term reward; and
- the scheme will introduce a formal mechanism for clawback of deferred rewards if it is subsequently discovered that results have been achieved by behaviour which fails to reflect the governance and values of the business.

In addition to the proposed modifications to the scheme, the Committee, together with management, has concluded that there will be no increase in Directors' base pay in 2012, thus maintaining the levels originally set in 2010.

The Committee believes that these proposals create a stronger link between pay, individual performance and corporate performance. It is also a responsible approach to both fixed and variable remuneration, which respects both the social climate in which we operate and the demands of our business model.

The Committee monitors the relationship between the Directors' total remuneration and cash outflows to other stakeholders. As demonstrated by the chart below, the Directors' total remuneration for the year, including pension and estimated long term incentive vesting not due to occur until April 2012, equates to 0.15% of the Group's operating cash flow.

Cash flow distribution to stakeholders



REWARDING SUCCESS FAIRLY

Our remuneration arrangements appropriately incentivise and reward shareholder value creation but do not encourage excessive risk-taking. The link between risk and remuneration is monitored closely with the Head of Audit & Risk.

The Committee firmly believes that Centrica's remuneration is and will remain in compliance with the principles of the UK Corporate Governance Code (the Code) and this Report outlines how the Company has applied the principles that relate to Directors' remuneration.

This Report details the Company's executive remuneration policy and includes information on the remuneration of the Directors for the financial year ended 31 December 2011. The Committee's Report will be presented to the forthcoming Annual General Meeting (AGM) for approval.

THE REMUNERATION COMMITTEE

The role of the Committee

The principal role of the Committee is to determine and make recommendations to the Board on the Company's framework and broad policy for the remuneration of the Chairman of the Board, the Company's Executive Directors and other senior executives (executives) to protect the interests of shareholders.

The Committee's terms of reference can be found on the Company's website and hard copies are available on request.

The members of the Committee are detailed on pages 42 and 43 and the Board has determined that each member of the Committee is independent. No Director is involved in the determination of, or votes on, any matter relating to his or her own remuneration.

Advice provided to the Committee

In 2011, the Committee had access to the advice and views of:

- the Group Director, Human Resources;
- the Group Reward Director;
- the Chief Executive;
- the Head of Audit & Risk;
- the General Counsel & Company Secretary;
- Deloitte LLP (Deloitte), who were appointed as independent external advisers to the Committee from January 2011; and
- Towers Watson, who were consulted but not formally appointed as advisers to the Committee.

Deloitte also provide a number of consulting services throughout the Group and Towers Watson provide actuarial services to the Company. The Committee takes into account the Remuneration Consultants Group's Code of Conduct when dealing with its advisers. The Committee is satisfied with Deloitte's performance and has determined that it is not necessary to seek a tender for the services currently provided.

The Committee's activities during 2011

Key issues reviewed by the Committee

In 2011, the Committee met five times and considered a number of key issues. In particular it reviewed:

- total remuneration, including a review of base pay for 2011;
- annual earnings of executives, in conjunction with advisers;
- the link between risk and remuneration;
- potential amendments to the performance targets of the Long Term Incentive Scheme (LTIS) and Deferred and Matching Share Scheme (DMSS);
- the impact of changing legislation on the operation of the existing share schemes; and
- developments in government and best practice proposals on executive remuneration.

Regular items reviewed by the Committee

The Committee regularly considers a number of items which, for 2011, included:

- 2010 Annual Incentive Scheme (AIS) payments;
- Executive Directors' AIS objectives for 2011;
- 2010 Remuneration Report;
- vesting for 2008 LTIS and DMSS awards;
- allocation of 2011 LTIS and DMSS awards;
- annual valuation of the Centrica Unapproved Pension Scheme (CUPS); and
- draft Executive Directors' AIS objectives for 2012.

REMUNERATION REPORT CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION

The following sections outline the policy and framework relating to the remuneration of the executives.

How reward is aligned to our strategic priorities

The Committee believes alignment between Centrica's business strategy and executive remuneration is essential:

- remuneration comprises competitive fixed elements, to retain high quality talent without excessive cost to the business;
- a significant proportion of total remuneration depends on delivering business performance in line with the strategic priorities. Individuals are rewarded for good performance against stretching targets;
- short-term incentives focus on delivery against individual strategically-aligned performance measures. These include demanding financial and non-financial business-related objectives. A significant proportion of short-term incentives are required to be deferred, as outlined on page 55; and
- longer-term incentives are linked to, and reward, returns to shareholders over a three to four-year period.

Remuneration policy

The remuneration policy aims to deliver a remuneration package:

- to attract and retain high quality executives in a challenging and competitive business environment;
- that delivers an appropriate balance between fixed and variable compensation for each executive;
- which places a strong emphasis on performance, both short and long term;
- that strongly aligns achievement of strategic objectives and the delivery of sustainable value to shareholders; and
- that seeks to avoid creating excessive risks in the achievement of performance targets.

Remuneration framework

The remuneration framework reflects current best practice, including the provisions on the design of performance-related remuneration as set out in the Code:

- the Committee reviews the packages and varies individual elements, when appropriate, from year-to-year;
- the potential maximum remuneration that executives could receive is of key interest when agreeing the level of base pay and the performance related elements of the remuneration package;
- the Committee takes account of, and is sensitive to, employment conditions throughout the Group and to the current economic climate as a whole;
- the AIS is designed to incentivise and reward the achievement of demanding financial and business-related objectives;
- long-term share-based incentives are designed to align the interests of the executives with the longer-term interests of our shareholders, by rewarding delivery of sustained, increased shareholder value; and
- the Committee considers the aggregate impact of remuneration on the financial standing of the Group.

Shareholding guidelines

A minimum shareholding policy requires the retention of a value of shares as follows:

- Chief Executive – 2 times base pay;
- other Executive Directors – 1.25 times base pay; and
- other Executive Committee members – 1 times base pay.

The executives have achieved, and in some cases materially exceeded, their minimum shareholding requirements.

Pension and other benefits

Sam Laidlaw, Mark Hanafin and Nick Luff are contractually entitled to receive a salary supplement in lieu of pension of 40% of base pay.

The salary supplements are paid in cash, with the exception of part of the supplement for Sam Laidlaw which is paid directly into his personal pension plan. The cash amounts paid in the year directly to individuals are disclosed within the Directors' emoluments table on page 57.

Phil Bentley and Chris Weston participate in the Centrica Pension Plan (CPP) (a contributory final salary arrangement) and in the CUPS (an Employer Funded Retirement Benefits Scheme). Full disclosure of the pension arrangements for the Executive Directors is given on page 63.

Under the terms of his contract of employment and following completion of the appropriate qualifying period which ended on 14 January 2012, Phil Bentley is entitled to draw his pension on an unreduced basis with effect from his 58th birthday provided he remains in employment and active membership of the CPP and CUPS until this time.

Emoluments of the Executive Committee

The total emoluments of the four members of the Executive Committee who served during 2011, calculated on the same basis as the emoluments of the Executive Directors detailed on page 57, fell into the following bands:

Bands £000	Number of executives
500 – 599	1
400 – 499	1
300 – 399	1
200 – 299	–
100 – 199	1

The emoluments of two executives detailed above are for a six-month period. Jill Shedden, Group Director, Human Resources was appointed on 1 July 2011 following the retirement of Anne Minto on 30 June 2011.

Pay and conditions across the Group

Pay and employment conditions across the Group are taken into account when setting the remuneration of the executives.

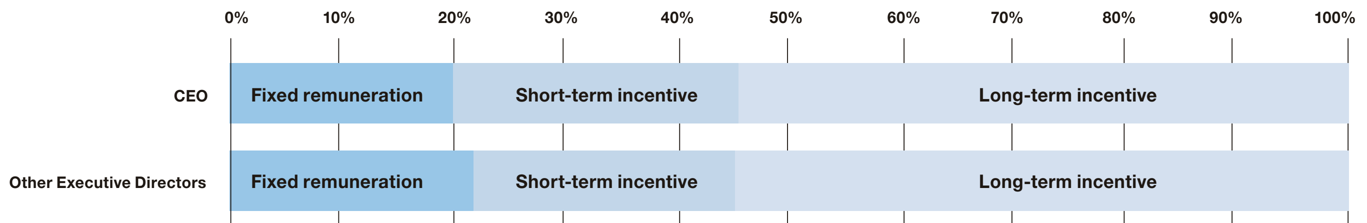
The Group operates in a number of different environments and has many employees who carry out diverse jobs across a number of countries:

- all employees, including executives, are paid by reference to the market rate and base pay is reviewed annually;
- a number of performance-related bonus schemes and all-employee share plans are operated across the Group;

- business unit performance measures are cascaded down through the organisation; and
- Group employment conditions include high standards of health and safety and equal opportunities.

THE TOTAL REMUNERATION PACKAGE

The core design of the total remuneration package for Executive Directors ensures that a substantial portion of the maximum opportunity is dependent upon performance as indicated below.



Summary of core remuneration elements for Executive Directors for 2011

Element	Opportunity	Objective	Current performance measures	Changes for 2012
Base pay	Chief Executive £950,000 Finance Director £610,000 MD British Gas £635,000 MD Centrica Energy £575,000 MD North America £510,000	Reflects the role and sustained value of the individual in terms of skills, experience and contribution	Benchmarked against a UK cross-industry comparator group of companies of similar size and complexity	No change - base pay remains fixed at levels set originally in 2010
Retirement benefits (see page 63)	Not applicable	Positioned to ensure broad competitiveness with market practice	Not applicable	No change
Annual Incentive Scheme (AIS) (see below and page 58)	Chief Executive 0 - 180% of base pay Other Executive Directors 0 - 150% of base pay Half the maximum is payable for on-target performance	The AIS provides a focus on delivery of the financial targets set out in the operating plan. It rewards the achievement of strategic priorities for the year that position the Group well for strong future performance	55% based on Economic Profit (EP), 33% on business metrics and 12% on individual objectives	No change to maximum opportunity 70% based on EP 30% based on strategic objectives aligned to business priorities, reinforcing the importance of balancing growth with EP returns in a business which is more vertically integrated and capital intensive
Deferred and Matching Share Scheme (DMSS) (see pages 58 and 60)	Mandatory deferral of 40% of AIS award for Chief Executive and 30% for other Executive Directors Additional voluntary deferral up to 50% of maximum bonus opportunity Up to two matching shares for each deferred share subject to performance over three years	Assists with employee retention and incentivises an appropriate balance between short-term performance and long-term value creation for shareholders	Three-year growth in EP measured by comparing the EP before the start of the performance period with that at the end of the performance period ('point to point' growth)	No change to maximum opportunity Absolute aggregate EP over performance period set by the Committee Encourages sustainable high performance and discourages peaks and troughs. All deferred reward can be clawed back if it is subsequently discovered that the results have been achieved by behaviour which fails to reflect the governance and values of the business
Long Term Incentive Scheme (LTIS) (see pages 61 and 62)	Up to 200% of base pay	Provides a direct link between remuneration and Key Performance Indicators (KPIs), reinforcing the desire for sustainable high performance over the long term	50% based on Earnings per Share (EPS) with 25% vesting for achieving growth of RPI +9% and full vesting requiring RPI +30% 50% based on relative Total Shareholder Return (TSR) with 25% vesting for achieving out-performance of FTSE 100 Index by +0.1% per annum and full vesting requiring Index +7% per annum	No change to maximum opportunity 35% based on EPS with 25% vesting for achieving growth of RPI +9% and full vesting requiring RPI +30% 35% based on absolute aggregate EP over performance period set by the Committee 30% based on non-financial KPI dashboard, as disclosed on page 56 Positive TSR outperformance of FTSE 100 Index acting as a multiplier with 1x multiple for Index +0.1% per annum and 1.5x multiple for Index +7% per annum subject to a cap of 200% of base pay Where performance falls between stated points, vesting is calculated on a straight line basis

REMUNERATION REPORT CONTINUED

How reward will align with our KPIs going forward

The KPIs, which are set out in detail on pages 12 and 13, underpin the selection of performance criteria used within the incentive arrangements as demonstrated in the table below. If overall performance is not deemed satisfactory, the award for any year may be reduced or forfeited, at the discretion of the Committee.

KPI	Performance measure	
Adjusted operating profit	EP – 1 year	EP – 3 year
EPS	EPS	
TSR	TSR	
Dividends	TSR	
Lost time injury rate	Non-financial KPI dashboard	
Carbon intensity	Strategic objectives	
Customer trust	Non-financial KPI dashboard	
Employee engagement	Non-financial KPI dashboard	

The non-financial KPI dashboard is designed to reward sustained high performance over the entire performance period, as indicated below.

For each measure three performance zones have been established, represented by the following indicators:

- High performance zone
- Median performance zone
- Low performance zone

Maximum vesting occurs for the achievement of a complete set of high performance outcomes. Each median or low outcome reduces vesting by 5% and 10% respectively. Vesting will only occur if the Committee confirms that satisfactory performance against the financial criteria within the LTIS has been achieved.

LTIS non-financial KPI dashboard

Measure	Performance period		
	Year 1 2012	Year 2 2013	Year 3 2014
Process safety	○	○	○
Lost time injury rate	○	○	○
British Gas Net Promoter Score (NPS)	○	○	○
Direct Energy NPS	○	○	○
Employee engagement	○	○	○

Base pay

The Committee agreed there will be no increase in Executive Directors' base pay in 2012, thus maintaining the levels originally set in 2010.

Funding of share schemes

The Company may satisfy the requirements of its share schemes either by acquiring shares in the market or, subject to institutional guidelines, issuing new shares or using shares held in treasury. During 2011, new issue shares were used to satisfy the release of shares or exercise of options under the DMSS, LTIS, Executive Share Option Scheme (ESOS) and Share Incentive Plan (SIP). Market purchased shares, held in trust, were used to satisfy outstanding allocations under the DMSS (deferred and investment shares) and the Special Executive Share Option Scheme (SESOS). There are no shares currently held in treasury, in accordance with the Companies Act 2006.

Other employment benefits

In common with other senior management, Executive Directors are entitled to a range of benefits:

- company car or cash allowance in lieu;
- life assurance premiums;
- private medical insurance;
- health screening; and
- financial counselling scheme.

Such benefits are subject to financial limits as set out in appropriate policies. All taxable benefits arising from employment by the Company have been included in the Benefits and other cash column of the table shown on page 57.

Executive Directors are also eligible to participate in the Company's HMRC-approved Sharesave Scheme and SIP, which are open to all eligible UK employees on the same basis, providing a long-term savings and investment opportunity.

Service contracts

The Executive Directors' service contracts expire on their 65th birthday, with the exception of Phil Bentley for whom three months notice must be served by either party following his 65th birthday. Service contracts provide that either the Director or the Company may terminate the employment by giving one year's written notice and that the Company may pay compensation in lieu of notice. There have been no payments for loss of office during the year.

On a change of control, conditional awards under DMSS and LTIS will vest to the extent that the performance conditions will have been met at the vesting date and be pro-rated for the time elapsed since the start of each performance period, until the vesting date, subject to the overriding discretion of the Committee.

The Committee retains a level of flexibility, as permitted by the Code, in order to attract and retain suitable candidates. It reserves the right to offer contracts which contain an initial notice period in excess of one year, provided that at the end of the first such period the notice period reduces to one year.

External appointments of Executive Directors

It is the Company's policy to allow each Executive Director to accept one non-executive directorship of another company, although the Board retains the discretion to vary this policy. Fees received in respect of external appointments are retained by the individual Director.

In 2011, Sam Laidlaw received £125,000 as a non-executive director of HSBC Holdings plc and has waived his right to receive a fee for his role as lead non-executive director of the Department of Transport.

NON-EXECUTIVE DIRECTORS' REMUNERATION

Remuneration policy for Non-Executive Directors

Centrica's policy on Non-Executive Directors' fees takes into account the need to attract high-quality individuals, their responsibilities, time commitment and market practice.

Fees

The fee levels for the Chairman and Non-Executive Directors are reviewed every two years and were last reviewed and increased in May 2010.

The annual fees payable to the Chairman and Non-Executive Directors are in the table below.

Base fees	2011
Chairman	£490,000
Non-Executive Directors	£65,000
Additional fees	
Chairman of Audit Committee	£23,000
Chairman of Remuneration Committee	£20,000
Chairman of Corporate Responsibility Committee	£20,000
Senior Independent Director	£20,000

The Non-Executive Directors, including the Chairman, do not participate in any of the Company's share schemes, incentive plans or pension schemes.

Terms of appointment

Non-Executive Directors, including the Chairman, do not have service contracts. Their appointments are subject to the Articles of Association and the dates they joined the Board are shown in the table below. Sir Roger Carr's letter of appointment contains a six-month notice period and his fees are reviewed and approved by the Committee. The fees of the Non-Executive Directors are approved by the Executive Committee.

STATUTORY DISCLOSURES

Audit requirements

The Remuneration Report from page 52 to page 57 up to this statement has not been audited. From this point until the end of the Report on page 63, the disclosures, with the exception of the graphs on page 61, have been audited by the Company's auditors, PricewaterhouseCoopers LLP.

Directors' emoluments

	Date of appointment	Base pay/fees £000	Cash AIS £000 (i)	Cash payments in lieu of pension £000	Benefits and other cash £000 (ii)	**Total emoluments 2011 £000 (iii)**	Total emoluments 2010 £000 (iii) (iv)
Chief Executive							
Sam Laidlaw	1 July 2006	950	–	279	63	**1,292**	2,045
Executive Directors							
Phil Bentley	13 September 2000	635	–	–	46	**681**	1,299
Mark Hanafin	14 July 2008	575	160	230	34	**999**	1,427
Nick Luff	1 March 2007	610	66	244	20	**940**	1,433
Chris Weston	1 July 2009	510	125	–	435	**1,070**	1,380
		3,280	351	753	598	**4,982**	7,584
Chairman							
Sir Roger Carr	1 January 2001	490	–	–	–	**490**	470
Non-Executive Directors							
Dame Helen Alexander	1 January 2003	85	–	–	–	**85**	79
Margherita Della Valle	1 January 2011	65	–	–	–	**65**	–
Mary Francis	22 June 2004	105	–	–	–	**105**	99
Andrew Mackenzie	1 September 2005	65	–	–	–	**65**	63
Ian Meakins	1 October 2010	65	–	–	–	**65**	16
Paul Rayner	23 September 2004	88	–	–	–	**88**	83
		963	–	–	–	**963**	810
Total emoluments		4,243	351	753	598	**5,945**	8,394

(i) Each Executive Director has deferred up to 50% of their maximum AIS opportunity on a gross basis and invested in to the DMSS, see pages 58 and 60. Any balance paid in cash is included above.
(ii) Benefits and other cash include:
- benefits and expenses for Chris Weston made in respect of his relocation to Canada; and
- employee discounts received by Directors during the year, in aggregate not more than £684 for any one individual (2010: £1,100).

(iii) The following are excluded from the table above:
- £101,250 was paid directly by the Company in 2011 into a personal pension plan for Sam Laidlaw and is referred to on page 54;
- Pensions – see page 63;
- Share options – see page 62. No Executive Director exercised executive or Sharesave share options during 2011. Phil Bentley exercised executive options during 2010. The theoretical aggregate gain made was £2,692,697. Sam Laidlaw and Phil Bentley exercised Sharesave options during 2010. The theoretical aggregate gains made were £808 and £553 and the price of a Centrica share at the dates of exercise were 281.50 pence and 274.50 pence, respectively. LTIS and Special Long Term Incentive Scheme (SLTIS) – see page 61. The aggregate value of shares vested to Executive Directors under LTIS and SLTIS was £2,284,993 (2010: £2,435,828); and
- DMSS – see page 60. The aggregate value of shares vested to Executive Directors under the DMSS was £4,106,911 (2010: £2,852,299).

(iv) The 2010 total emoluments figure:
- in respect of each Executive Director, includes the total cash payment made under the AIS, before voluntary deferral in to the DMSS on a net basis; and
- in respect of Ian Meakins is for the period from 1 October 2010 to 31 December 2010.

REMUNERATION REPORT CONTINUED

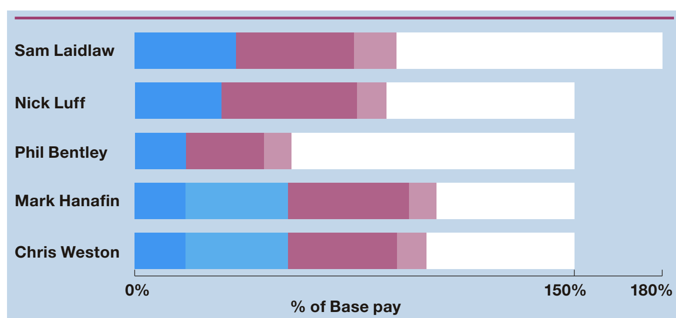
Annual Incentive Scheme (AIS)

The annual performance metrics in place for 2011 were designed to reward the delivery of our key strategic priorities for that year. Health, Safety & Environment (HS&E) performance was assessed against a corporate responsibility scorecard that includes HS&E performance indicators and incident rates. If overall business performance is not deemed satisfactory, the individual's bonus for the year may be reduced or forfeited, at the discretion of the Committee.

For 2011, the Committee set AIS targets to drive delivery of the annual operating plan. Delivery of the operating plan in each of the major business units and the Group as a whole would have resulted in AIS awards equivalent to half of the maximum opportunity. Achievement substantially in excess of the level required to meet the targets set would have been required to warrant the maximum award level.

Targets were set against a number of key measures including Group and business unit EP, operational metrics, HS&E performance and individual objectives.

The chart below illustrates the extent to which the targets set were achieved and accordingly the aggregate AIS award for each Executive Director.



- Group EP
- Division EP
- KPI's
- Individual
- Not achieved

Deferred and Matching Share Scheme (DMSS)

Compulsory deferral

Part of the bonus earned under the AIS for the previous year is compulsorily deferred in to Centrica shares (deferred shares). During 2011, 40% of AIS earned in respect of 2010 for the Chief Executive and 30% for the other executives was compulsorily deferred, details of which can be found on page 60.

Voluntary deferral

Executives may make an additional voluntary deferral of AIS into Centrica shares (investment shares). The maximum total deferral that may be made, including the compulsory deferral, is 50% of the maximum AIS opportunity which may be earned for a year.

Share matching

Deferred and investment shares that are held for three years will be matched to the extent that a long-term performance condition is met, details of which can be found on page 55.

For awards made from 2010, matching shares were structured as nil-cost options for all UK resident participants.

2012 aggregate deferral amounts

Executive Directors participated in the AIS during 2011 and will defer in aggregate as follows in 2012:

Director	Aggregate value of deferrals at award date £000
Sam Laidlaw	848
Phil Bentley	339
Mark Hanafin	431
Nick Luff	458
Chris Weston	383

Structure of deferrals and performance measures

Compulsory deferral
Part of AIS earned is automatically deferred into Centrica shares
Deferred shares

Voluntary deferral
Additional AIS may be deferred (up to 50% of the maximum AIS opportunity, including the compulsory deferral)
Investment shares

Performance measured
After the end of three years the EP performance is measured

Shares matched
If the performance target is met shares may be matched up to 2 for 1

EP is adjusted operating profit (after share of joint venture interest), less a tax charge based on the tax rate relevant to the different business segments and after deduction of a capital charge. The capital charge is calculated as capital employed multiplied by the Group's weighted average cost of capital. Where appropriate, expenditure on assets (and related costs) that are not yet in use (pre-productive capital) is excluded from capital employed.

Governance

Directors' interests in shares (number of shares)

The following table and the tables on pages 60, 61 and 62 show the interests of the Directors who held office at the end of the year in the ordinary shares of the Company and, for the Executive Directors, their interests in the Company's share schemes.

	Shareholdings as at 31 December 2011	Shareholdings as at 1 January 2011	**DMSS total matching shares as at 31 December 2011**	DMSS total matching shares as at 1 January 2011	**LTIS total allocations of shares as at 31 December 2011**	LTIS total allocations of shares as at 1 January 2011
Chief Executive						
Sam Laidlaw (i) (ii)	**2,249,985**	1,859,419	**1,770,346**	1,707,182	**2,032,379**	2,129,974
Executive Directors						
Phil Bentley (i) (ii)	**1,995,871**	2,184,946	**769,198**	588,285	**1,361,477**	1,408,432
Mark Hanafin (i) (ii)	**488,941**	319,259	**859,269**	599,594	**1,209,126**	1,229,137
Nick Luff (i) (ii)	**639,791**	624,534	**914,752**	865,804	**1,280,733**	1,322,949
Chris Weston (i) (ii)	**591,361**	552,344	**762,580**	652,367	**1,086,610**	1,043,752
Chairman						
Sir Roger Carr	**58,361**	26,441	**–**	–	**–**	–
Non-Executive Directors						
Dame Helen Alexander	**3,465**	3,465	–	–	–	–
Margherita Della Valle	**5,000**	–	–	–	–	–
Mary Francis	**3,500**	3,500	–	–	–	–
Andrew Mackenzie	**28,875**	28,875	–	–	–	–
Ian Meakins	**5,000**	–	–	–	–	–
Paul Rayner	**56,875**	56,875	–	–	–	–

(i) Executive Directors' shareholdings shown above include those held in the SIP and the deferred and investment shares held in the DMSS. Shareholdings for Chris Weston include 117,256 notional deferred shares `under the DMSS which will remain notional until the end of the three-year deferral period due to local Canadian tax laws.
(ii) Matching shares held in the DMSS and shares held under the LTIS are conditional and the above numbers indicate the maximum potential opportunity. More detail can be found in their respective tables on pages 60 and 61.

From 1 January 2011 to 23 February 2012, none of the Directors had any interests in the securities of the Company's subsidiaries or associated undertakings.

Changes since 1 January 2012

During the period from 1 January to 23 February 2012, the only changes to the Directors' interests in shares were in respect of shares acquired through the SIP: 125 shares in respect of Sam Laidlaw, 126 shares in respect of Mark Hanafin, Nick Luff and Chris Weston and 127 shares in respect of Phil Bentley.

REMUNERATION REPORT CONTINUED

DMSS for Executive Directors

DMSS allocations (number of shares)

	Deferred and investment shares held as at 1 January 2011 (i) (ii)	Deferred and investment shares acquired during the year	Deferred shares released and investment shares transferred during the year	**Deferred and investment shares held as at 31 December 2011(iii)**	Conditional matching shares held as at 1 January 2011 (iv)	Conditional matching and dividend shares awarded during the year (iv) (v)	Conditional matching shares vested during the year (vi)	**Conditional matching shares held as at 31 December 2011**
Sam Laidlaw								
2008	182,209	–	(182,209)	**–**	451,674	66,247	(517,921)	**–**
2009	282,574	–	–	**282,574**	701,639	–	–	**701,639**
2010	246,859	–	–	**246,859**	553,869	–	–	**553,869**
2011	–	218,265	–	**218,265**	–	514,838	–	**514,838**
	711,642	218,265	(182,209)	**747,698**	1,707,182	581,085	(517,921)	**1,770,346**
Phil Bentley								
2008	51,312	–	(51,312)	**–**	105,859	15,526	(121,385)	**–**
2009	86,099	–	–	**86,099**	172,198	–	–	**172,198**
2010	126,745	–	–	**126,745**	310,228	–	–	**310,228**
2011	–	111,117	–	**111,117**	–	286,772	–	**286,772**
	264,156	111,117	(51,312)	**323,961**	588,285	302,298	(121,385)	**769,198**
Mark Hanafin								
2009	113,519	–	–	**113,519**	332,245	–	–	**332,245**
2010	107,644	–	–	**107,644**	267,349	–	–	**267,349**
2011	–	102,358	–	**102,358**	–	259,675	–	**259,675**
	221,163	102,358	–	**323,521**	599,594	259,675	–	**859,269**
Nick Luff								
2008	91,926	–	(91,926)	**–**	226,536	33,226	(259,762)	**–**
2009	140,352	–	–	**140,352**	356,787	–	–	**356,787**
2010	114,084	–	–	**114,084**	282,481	–	–	**282,481**
2011	–	106,324	–	**106,324**	–	275,484	–	**275,484**
	346,362	106,324	(91,926)	**360,760**	865,804	308,710	(259,762)	**914,752**
Chris Weston								
2008	49,927	–	(49,927)	**–**	120,111	17,616	(137,727)	**–**
2009	109,241	–	–	**109,241**	280,040	–	–	**280,040**
2010	96,912	–	–	**96,912**	252,216	–	–	**252,216**
2011	–	88,232	–	**88,232**	–	230,324	–	**230,324**
	256,080	88,232	(49,927)	**294,385**	652,367	247,940	(137,727)	**762,580**

Dates of allocation, prices and performance periods for outstanding DMSS awards

	Date of allocation of deferred shares	Market price at date of allocation of deferred shares (pence)	Date of allocation of investment shares	Market price at date of allocation of investment shares (pence)	Vesting date	Market price at vesting date (pence)
2008 (i)	13 Oct 08	255.50	13 Oct 08	255.50	4 Apr 11	331.60
2009 (ii)	3 Apr 09	221.75	26 May 09	248.25	3 Apr 12	–
2010	6 Apr 10	296.89	6 Apr 10	296.89	8 Apr 13	–
2011	4 Apr 11	331.60	4 Apr 11	331.60	4 Apr 14	–

(i) In 2008, outstanding allocations were adjusted to take account of the dilutive effect of the Rights Issue.
(ii) In 2009, the voluntary element of the DMSS was delayed until 26 May 2009 due to the executives being subject to dealing restrictions under the Company's Share Dealing Code.
(iii) In respect of Chris Weston, who is based in Toronto, conditional awards have been allocated and in this respect, 117,256 shares are included above.
(iv) From 2010, awards of matching shares have been structured as nil-cost options for all UK resident participants. Once vested, nil-cost options will be reported in the Directors' interests in share options disclosure within this report.
(v) For the calculation of matching shares before 2012, investment shares were grossed up (to reflect the impact of income tax and employee's National Insurance Contributions (NICs)) so that the deferred and investment shares were matched on the same basis. The number of matching shares released following the satisfaction of the performance condition is increased to reflect the dividends that would have been paid during the three-year performance period and those shares added in respect of the vested 2008 matching shares are detailed above. Dividends are paid on the deferred and investment shares to the participants on the normal dividend payment date.
(vi) As at 31 December 2010, the Company's cumulative EP growth over the three-year performance period was 39% and as a result the conditional matching shares vested in full.

Long Term Incentive Scheme (LTIS)

In 2011, LTIS allocations equal to 200% of base pay were awarded to Executive Directors and, at lower levels, to other senior executives. The performance measures attaching to the outstanding LTIS awards are shown in the table below.

Vesting criteria 2010 and 2011	Performance condition over three-year period
One half on EPS growth against RPI growth(i)	Full vesting for EPS growth exceeding RPI growth by 30% Zero vesting if EPS growth does not exceed RPI growth by 9% Vesting will increase on a straight-line basis between 25% and 100% between these points
One half on TSR measured as a percentage out-performance of the FTSE 100 Index	Full vesting for TSR out-performance of the FTSE 100 Index by 7% per annum Zero vesting if TSR out-performance of the FTSE 100 Index does not exceed 0.1% per annum Vesting will increase on a straight-line basis between 25% and 100% for TSR out-performance of the FTSE 100 Index between these points
Vesting criteria 2009	
One half on EPS growth against RPI growth(i)	As above
One half on TSR measured against a comparator group of the FTSE 100 as constituted at the beginning of the performance period	Full vesting for upper-quintile ranking Zero vesting for sub-median ranking Vesting will increase on a straight-line basis between 25% and 100% for ranking between these points

(i) EPS is the Group's diluted adjusted earnings per share.

LTIS and SLTIS allocations for Executive Directors (number of shares)

	Vested during 2011		In performance period			
Date of allocation	3 Apr 08 (i) (ii) (iv)	1 Sep 08 (i) (iii) (iv)	3 Apr 09	9 Sep 09	6 Apr 10 (v)	4 Apr 11 (v)
Sam Laidlaw	214,355	–	806,700	–	643,500	582,179
Phil Bentley	137,515	–	542,208	–	430,129	389,140
Mark Hanafin	–	138,776	467,268	–	389,487	352,371
Nick Luff	131,189	–	493,718	–	413,195	373,820
Chris Weston (vi)	85,039	–	330,614	98,000	345,458	312,538
Market price at allocation date	271.08p	292.00p	221.75p	257.40p	296.89p	331.60p
Vesting date	4 Apr 11	1 Sep 11	3 Apr 12	10 Sep 12	8 Apr 13	4 Apr 14
Market price at vesting date	331.60p	300.50p				

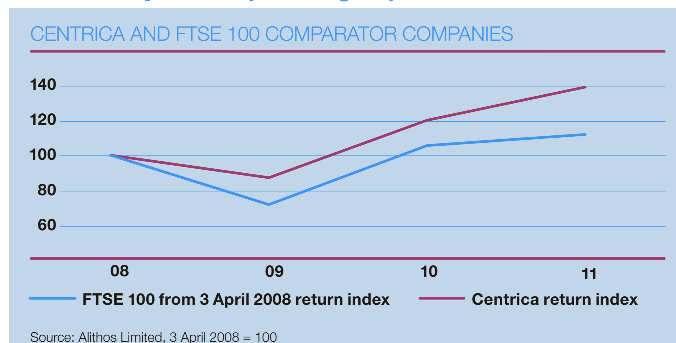
(i) As at 31 December 2010, the Company's EPS target for awards made in 2008 had not been achieved and as a result none of the EPS shares allocated vested during the year.
(ii) At the end of the performance period on 2 April 2011, the Company ranked 38th against the FTSE 100 comparator group and as a result 55% of TSR shares vested. Consequently, overall 27.5% of the original allocations were released on 4 April 2011.
(iii) At the end of the performance period on 31 August 2011, the Company ranked 34th against the FTSE 100 comparator group and as a result 65% of TSR shares vested. Consequently, overall 32.5% of the original allocations were released on 6 September 2011.
(iv) Additional shares were released to reflect the value of the dividends that would have been paid over the respective three-year period.
(v) From 2010, LTIS awards have been structured as nil-cost options for all UK resident participants. Once vested, nil-cost options will be reported in the Directors' interests in share options disclosure within this report.
(vi) In respect of Chris Weston, who is based in Toronto, conditional awards have been allocated and are included above.

In assessing the extent to which the performance conditions have been met, the Committee uses data provided by Alithos Limited (an independent third party) for comparative TSR performance and audited results for EPS performance. The Committee also considers whether the extent to which the performance conditions have been achieved is a genuine reflection of the Company's underlying financial performance. The number of shares released will be increased to reflect the dividends that would have been paid on those shares during the three-year performance period.

In respect of LTIS awards from 2010 these were structured as nil-cost options for all UK resident participants.

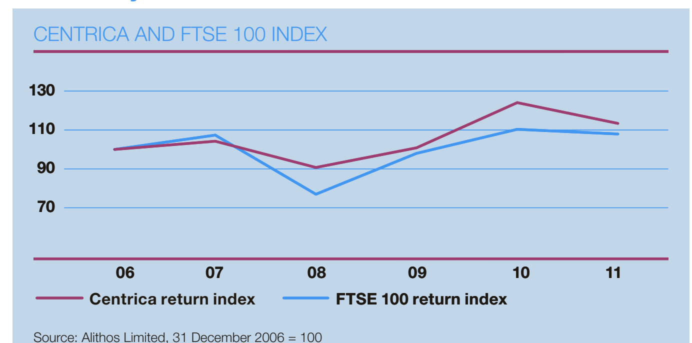
The TSR graph for the three-year performance of the LTIS awards that vested in April 2011 is shown below, together with a comparison of the Company's TSR performance with that of the FTSE 100 Index for the five years ended 31 December 2011.

TSR – three year comparator group



Source: Alithos Limited, 3 April 2008 = 100

TSR – five year FTSE 100 Index



Source: Alithos Limited, 31 December 2006 = 100

- These graphs have been provided by Alithos Limited (an independent third party) and have not been audited by the Company's auditors, PricewaterhouseCoopers LLP.
- The five year comparator graph is required by Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. A rolling definition of the FTSE 100 has been used. This is not the same as the definition used for the purposes of the LTIS.

REMUNERATION REPORT CONTINUED

Directors' interests in share options

Full details of the options over ordinary shares in the Company held by Executive Directors who served during the year, and any movements in those options in the year, are shown below.

	Options held as at 1 January 2011	Options granted during the year	Options exercised during the year	Options lapsed during the year	**Options held as at 31 December 2011**	Exercise price (pence) (i)	Date from which exercisable	Expiry date
Sam Laidlaw								
Sharesave	3,977	–	–	–	**3,977**	228.16	Jun 13	Nov 13
Phil Bentley								
Sharesave	3,977	–	–	–	**3,977**	228.16	Jun 13	Nov 13
Mark Hanafin								
SESOS	336,012	–	–	–	**336,012**	255.94	Sep 08	Sep 18
Sharesave	4,727	–	–	–	**4,727**	193.54	Jun 12	Nov 12
	340,739	–	–	–	**340,739**			
Nick Luff								
Sharesave	7,392	–	–	–	**7,392**	227.24	Jun 13	Nov 13
Chris Weston								
ESOS	112,330	–	–	–	**112,330**	130.50	Mar 06	Mar 13
ESOS	120,379	–	–	–	**120,379**	199.36	Mar 07	Mar 14
ESOS	130,187	–	–	–	**130,187**	203.55	Apr 08	Mar 15
ESOS	267,920	–	–	–	**267,920**	253.80	Apr 09	Apr 16
Sharesave	4,727	–	–	–	**4,727**	193.54	Jun 12	Nov 12
	635,543	–	–	–	**635,543**			

(i) Where appropriate, exercise prices were adjusted to take account of the dilutive effect of the Rights Issue in 2008.

Executive Share Option Scheme (ESOS)

- Outstanding ESOS options held by Chris Weston were granted on 24 March 2003, 18 March 2004, 1 April 2005 and 3 April 2006.
- No options have been granted under the ESOS since 2006.
- The performance criteria have now been met in respect of all of the outstanding grants under ESOS and Chris Weston has a 10 year period from each date of grant during which he can exercise his options.

Special Executive Share Option Scheme (SESOS)

- Outstanding SESOS options held by Mark Hanafin were granted on 26 September 2008.
- The grant is not subject to any performance conditions and Mark Hanafin has a 10 year period from the date of grant during which he can exercise his options.

Nil-cost share options

- Nil-cost options were granted to the Executive Directors excluding Chris Weston on 6 April 2010 and 4 April 2011 and are disclosed on pages 60 and 61.
- Grants under the LTIS are subject to TSR and EPS performance, as outlined on pages 55 and 61.
- Grants under the DMSS are subject to EP performance, as outlined on pages 55 and 60.
- Recipients will have a 10 year period from each date of grant during which to exercise any such options that may vest.
- Once vested, share options will be disclosed in the table above.

Sharesave Scheme

- Outstanding Sharesave options held by the Executive Directors were granted on 3 April 2008, 7 April 2009 and 6 April 2010.

Share Price

- The closing price of a Centrica ordinary share on the last trading day of 2011, which was 30 December 2011, was 289.30 pence. The range during the year was 278.80 pence and 345.80 pence.

Retirement benefits

Phil Bentley and Chris Weston are members of the CPP. Sam Laidlaw, Mark Hanafin and Nick Luff, who all joined the Company in recent years, are not members of any of Centrica's pension schemes.

Centrica Pension Plan (CPP)

The CPP is a funded, HMRC-registered, final salary, contributory occupational pension scheme. Its rules have the following main features:

- normal retirement at age 62;
- right to an immediate, unreduced pension on leaving service after age 60 at own request with employer consent or on leaving service at the Company's request after age 55;
- life assurance cover of four times base pay for death in service;
- spouse's pension on death in service payable at the rate of 50% of the member's prospective pension and, on death after retirement, half of the accrued pension. Children's pensions on death are also payable at 25% of the member's prospective pension at normal retirement age;
- members' contributions payable at the rate of 6% of pensionable earnings. Contributions made by the Executive Directors who are also members of the CUPS are payable at the rate of 6% of their total pensionable earnings above the scheme earnings cap;
- pension payable in the event of retirement due to ill health;
- pensions in payment guaranteed to increase in line with the increase in RPI (a maximum of 6% applies to pension accrued after 1 April 2002 or the date of joining the CPP if later) and in deferment pensions are increased in line with statutory requirements (broadly CPI from January 2011 with a maximum of 2.5% per annum) but with a maximum rate of 6% per annum in respect of benefits accrued prior to 29 February 2012; and
- no discretionary practices are taken into account in calculating transfer values.

Centrica Unfunded Pension Scheme (CUPS)

All registered scheme benefits are subject to HMRC guidelines. As a result of the changes introduced by Centrica following the 2004 Finance Act, benefits at 6 April 2006 from the registered scheme, the CPP, could not exceed the Lifetime Allowance after taking account of retained benefits from all other sources notified to Centrica at this time. The CUPS provides any additional benefits in excess of the maximum amount that could be provided through the CPP on the members' uncapped pensionable earnings. The benefits that arise under CUPS are treated as being subject to the same rules as apply in respect of the registered portion of members' benefits. No individuals will receive benefits from Centrica which, when added to their retained benefits elsewhere at 6 April 2006, exceed two-thirds of their final pensionable earnings. CUPS is unfunded but the benefits are secured by a charge over certain Centrica assets. An appropriate provision in respect of the accrued value of these benefits has been made in the Company's balance sheet. Pensionable pay increases will be limited to pay reviews up to a maximum of 2% per annum with effect from 1 March 2012 for members of the CPP and CUPS.

Pension benefits earned by Directors in the CPP and CUPS

	Accrued pension as at 31 December 2011 £	Accrued pension as at 31 December 2010 £	Increase in accrued pension less inflation £	**Transfer value as at 31 December 2011 £**	Transfer value as at 31 December 2010 £	**Contribution paid in 2011 £**	Difference in transfer value less contributions £	Transfer value of increase in accrued pension excluding inflation £
Phil Bentley	**209,500**	191,500	7,276	**3,641,900**	3,124,600	**38,100**	479,200	83,500
Chris Weston	**114,300**	102,500	6,060	**1,574,300**	1,352,500	**30,600**	191,200	52,600

- The accrued pension is that which would be paid annually on retirement at age 62, based on eligible service to, and pensionable earnings at, 31 December 2011. The pension accrual rates for 2010 for Phil Bentley and Chris Weston were 2.65% and 2.22% of final pensionable earnings respectively.
- The increase in accrued pension has been adjusted to exclude inflation by revaluing the accrued pension as at 31 December 2011 by the rate of inflation (5.6%) and deducting this from the accrued pension as at 31 December 2011. The rate of inflation used for pension increases under both the CPP and CUPS was 5.6%, the annual rate to 30 September 2011.
- A change in the transfer value calculation basis was also introduced in February 2011. Had the transfer value been calculated on the accrued pension at 31 December 2011 but using the calculation basis in force at 31 December 2010, the transfer value of the accrued pension would have amounted to £3,813,100 for Phil Bentley and £1,723,400 for Chris Weston. The difference in the transfer value less contributions would have amounted to £650,400 for Phil Bentley, and £340,300 for Chris Weston.

This Report on remuneration has been approved by the Board of Directors and signed on its behalf by:

Grant Dawson
General Counsel & Company Secretary
23 February 2012

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CENTRICA PLC

We have audited the Group Financial Statements of Centrica plc for the year ended 31 December 2011 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Group Balance Sheet, the Group Cash Flow Statement and the related notes and supplementary information. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibility Statement set out on page 51, the Directors are responsible for the preparation of the Group Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the Group Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2011 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group Financial Statements are prepared is consistent with the Group Financial Statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 51 in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

OTHER MATTER

We have reported separately on the parent Company Financial Statements of Centrica plc for the year ended 31 December 2011 and on the information in the Directors' Remuneration Report that is described as having been audited.

John Maitland
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 February 2012

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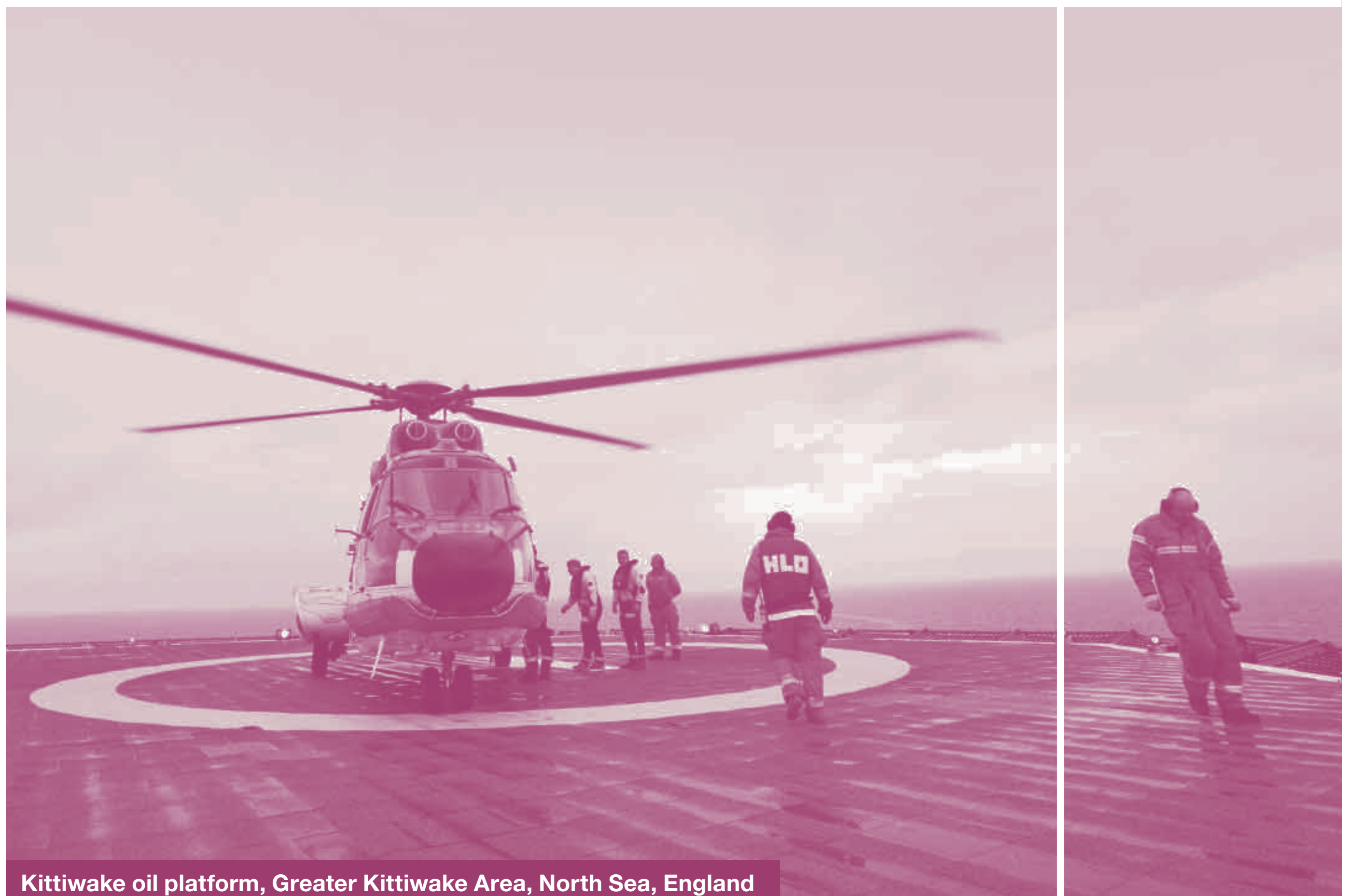

Kittiwake oil platform, Greater Kittiwake Area, North Sea, England

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GROUP INCOME STATEMENT

Year ended 31 December	Notes	2011 Business performance £m	2011 Exceptional items and certain re-measurements £m	2011 Results for the year £m	2010 Business performance £m	2010 Exceptional items and certain re-measurements £m	2010 Results for the year £m
Group revenue	4	**22,824**	**–**	**22,824**	22,423	–	22,423
Cost of sales before exceptional items and certain re-measurements	5	**(17,959)**	**–**	**(17,959)**	(17,595)	–	(17,595)
Exceptional items	7	**–**	**(221)**	**(221)**	–	(102)	(102)
Re-measurement of energy contracts	7	**–**	**(437)**	**(437)**	–	1,177	1,177
Cost of sales	5	**(17,959)**	**(658)**	**(18,617)**	(17,595)	1,075	(16,520)
Gross profit		**4,865**	**(658)**	**4,207**	4,828	1,075	5,903
Operating costs before exceptional items	5	**(2,750)**	**–**	**(2,750)**	(2,641)	–	(2,641)
Exceptional items	7	**–**	**(110)**	**(110)**	–	(181)	(181)
Operating costs	5	**(2,750)**	**(110)**	**(2,860)**	(2,641)	(181)	(2,822)
Share of profits/(losses) in joint ventures and associates, net of interest and taxation	7, 16	**93**	**(26)**	**67**	7	(14)	(7)
Group operating profit	4	**2,208**	**(794)**	**1,414**	2,194	880	3,074
Interest income	8	**212**	**–**	**212**	214	–	214
Interest expense	8	**(358)**	**–**	**(358)**	(479)	–	(479)
Net interest expense		**(146)**	**–**	**(146)**	(265)	–	(265)
Profit from continuing operations before taxation		**2,062**	**(794)**	**1,268**	1,929	880	2,809
Taxation on profit from continuing operations	9	**(810)**	**(16)**	**(826)**	(708)	(221)	(929)
Profit from continuing operations after taxation		**1,252**	**(810)**	**442**	1,221	659	1,880
Profit/(loss) from discontinued operations	7	**13**	**22**	**35**	(8)	67	59
(Loss)/profit on disposal of discontinued operations	7, 31	**–**	**(56)**	**(56)**	3	–	3
Discontinued operations		**13**	**(34)**	**(21)**	(5)	67	62
Profit for the year		**1,265**	**(844)**	**421**	1,216	726	1,942
Attributable to:							
Equity holders of the parent		**1,265**	**(844)**	**421**	1,209	726	1,935
Non-controlling interests		**–**	**–**	**–**	7	–	7
		1,265	**(844)**	**421**	1,216	726	1,942
Earnings per ordinary share				**Pence**			Pence
From continuing and discontinued operations:							
Basic	11			**8.2**			37.6
Diluted	11			**8.1**			37.3
From continuing operations:							
Basic	11			**8.6**			36.4
Diluted	11			**8.5**			36.1
Interim dividend paid per ordinary share	10			**4.29**			3.84
Final dividend proposed per ordinary share	10			**11.11**			10.46

The notes on pages 70 to 122 form part of these Financial Statements.

GROUP STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Notes	2011 £m	2010 £m
Profit for the year		**421**	1,942
Other comprehensive income/(losses):			
Transfer of available-for-sale reserve to income statement	27	**23**	–
Losses on revaluation of available-for-sale securities	27	**(4)**	(4)
Taxation on revaluation of available-for-sale securities	27	**(2)**	(1)
		17	(5)
Unrealised (losses)/gains on cash flow hedges	27	**(99)**	10
Transferred to income and expense on cash flow hedges	27	**42**	236
Transferred to assets and liabilities on cash flow hedges	27	**2**	19
Recycling of foreign exchange gains on cash flow hedges on disposal of business	27	**–**	9
Exchange differences on cash flow hedges	27	**(3)**	(8)
Taxation on cash flow hedges	27	**23**	(79)
		(35)	187
Exchange differences on translation of foreign operations	27	**(12)**	70
Recycling of foreign exchange loss on disposal of business	27	**(3)**	(1)
Taxation on related exchange differences	27	**–**	14
		(15)	83
Net actuarial gains/(losses) on defined benefit pension schemes	27	**198**	(9)
Exchange loss on translation of actuarial reserve	27	**–**	(1)
Taxation on net actuarial gains/(losses) on defined benefit pension schemes	27	**(59)**	(2)
		139	(12)
Share of joint ventures/associates actuarial (loss)/gain (post tax)	16	**(24)**	14
Share of joint ventures/associates cash flow hedge reserve (loss)/gain (post tax)	16	**(1)**	1
		(25)	15
Other comprehensive income net of taxation		**81**	268
Total comprehensive income for the year		**502**	2,210

GROUP STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent							
	Share capital (note 26) £m	Share premium £m	Retained earnings £m	Accumulated other comprehensive income/(loss) (note 27) £m	Other equity (note 28) £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
1 January 2010	317	778	3,103	(587)	581	4,192	63	4,255
Total comprehensive income	–	–	1,935	268	–	2,203	7	2,210
Employee share schemes	1	55	16	–	(3)	69	–	69
Liquidation of subsidiaries	–	–	–	–	–	–	(70)	(70)
Dividends	–	–	(668)	–	–	(668)	–	(668)
Taxation	–	–	–	–	20	20	–	20
Exchange adjustments	–	–	–	–	3	3	–	3
31 December 2010	318	833	4,386	(319)	601	5,819	–	5,819
Total comprehensive income	–	–	421	81	–	**502**	–	**502**
Employee share schemes	1	41	5	–	10	**57**	–	**57**
Dividends	–	–	(762)	–	–	**(762)**	–	**(762)**
Purchase of non-controlling interest	–	–	(7)	–	–	**(7)**	–	**(7)**
Taxation	–	–	–	–	(8)	**(8)**	–	**(8)**
Exchange adjustments	–	–	–	–	(1)	**(1)**	–	**(1)**
31 December 2011	**319**	**874**	**4,043**	**(238)**	**602**	**5,600**	**–**	**5,600**

The notes on pages 70 to 122 form part of these Financial Statements.

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Financial Statements

GROUP BALANCE SHEET

31 December	Notes	2011 £m	2010 £m
Non-current assets			
Goodwill	14	**2,518**	2,370
Other intangible assets	14	**1,221**	1,084
Property, plant and equipment	15	**6,412**	6,398
Interests in joint ventures and associates	16	**2,620**	2,507
Deferred tax assets	22	**235**	238
Trade and other receivables	18	**74**	97
Derivative financial instruments	19	**290**	341
Securities	12	**190**	234
Retirement benefit assets	29	**413**	–
		13,973	13,269
Current assets			
Inventories	17	**442**	344
Current tax assets		**81**	81
Trade and other receivables	18	**4,212**	4,187
Derivative financial instruments	19	**315**	449
Securities	12	**28**	23
Cash and cash equivalents	12	**518**	467
		5,596	5,551
Assets of disposal groups classified as held for sale	31	**–**	455
Total assets		**19,569**	19,275
Current liabilities			
Trade and other payables	21	**(4,094)**	(4,059)
Current tax liabilities		**(226)**	(182)
Bank overdrafts, loans and other borrowings	12	**(502)**	(77)
Derivative financial instruments	19	**(1,140)**	(755)
Provisions for other liabilities and charges	23	**(308)**	(195)
		(6,270)	(5,268)
Net current (liabilities)/assets		**(674)**	283
Non-current liabilities			
Trade and other payables	21	**(33)**	(56)
Bank overdrafts, loans and other borrowings	12	**(3,669)**	(3,959)
Derivative financial instruments	19	**(505)**	(648)
Deferred tax liabilities	22	**(1,506)**	(1,367)
Provisions for other liabilities and charges	23	**(1,903)**	(1,551)
Retirement benefit obligations	29	**(83)**	(239)
		(7,699)	(7,820)
Liabilities of disposal groups classified as held for sale	31	**–**	(368)
Net assets		**5,600**	5,819
Equity			
Share capital	26	**319**	318
Share premium		**874**	833
Retained earnings		**4,043**	4,386
Accumulated other comprehensive loss	27	**(238)**	(319)
Other equity	28	**602**	601
Total shareholders' equity		**5,600**	5,819

The Financial Statements on pages 66 to 122 were approved and authorised for issue by the Board of Directors on 23 February 2012 and were signed below on its behalf by:

Sam Laidlaw
Chief Executive

Nick Luff
Group Finance Director

The notes on pages 70 to 122 form part of these Financial Statements.

GROUP CASH FLOW STATEMENT

Year ended 31 December	Notes	2011 £m	2010 (restated) (i) £m
Cash generated from continuing operations	13	**3,229**	3,190
Income taxes paid		**(430)**	(412)
Net petroleum revenue tax paid		**(262)**	(128)
Interest received		**20**	5
Interest paid		**(3)**	(11)
Payments relating to exceptional charges		**(194)**	(223)
Net cash flow from continuing operating activities		**2,360**	2,421
Net cash flow from discontinued operating activities		**(23)**	7
Net cash flow from operating activities		**2,337**	2,428
Purchase of businesses net of cash and cash equivalents acquired	30	**(394)**	(606)
Sale of businesses net of cash and cash equivalents disposed of	31	**78**	9
Purchase of intangible assets	4,14	**(299)**	(406)
Purchase of property, plant and equipment	4,15	**(765)**	(547)
Disposal of property, plant and equipment and intangible assets		**6**	47
Investments in joint ventures and associates	16	**(236)**	(149)
Dividends received from joint ventures and associates	16	**147**	83
Repayments of loans to, and disposal of investments in, joint ventures and associates	16	**10**	26
Interest received		**6**	19
Net sale/(purchase) of securities	13	**48**	(56)
Net cash flow from continuing investing activities		**(1,399)**	(1,580)
Net cash flow from discontinued investing activities		**(1)**	(4)
Net cash flow from investing activities		**(1,400)**	(1,584)
Issue of ordinary share capital	26	**23**	31
Purchase of treasury shares		**(6)**	(9)
Financing interest received		**9**	–
Financing interest paid		**(202)**	(292)
Cash inflow from additional debt		**114**	267
Cash outflow from payment of capital element of finance leases		**(25)**	(23)
Cash outflow from repayment of other debt		**(30)**	(928)
Net cash flow from increase/(reduction) in debt	13	**59**	(684)
Realised net foreign exchange loss on cash settlement of derivative contracts		**(28)**	(55)
Equity dividends paid	10	**(762)**	(668)
Net cash flow from continuing financing activities		**(907)**	(1,677)
Net increase/(decrease) in cash and cash equivalents		**30**	(833)
Cash and cash equivalents at 1 January		**451**	1,285
Effect of foreign exchange rate changes		**(2)**	(1)
Cash and cash equivalents at 31 December		**479**	451
Included in the following lines of the Balance Sheet:			
Cash and cash equivalents	12	**518**	467
Bank overdrafts, loans and other borrowings		**(39)**	(19)
Assets of disposal groups classified as held for sale	31	**–**	3
		479	451

(i) The 2010 comparatives have been restated for a change in presentation of emission certificate/allowance cash flows, see note 1(d).

The notes on pages 70 to 122 form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT NEW ACCOUNTING POLICIES AND REPORTING CHANGES

The principal accounting policies applied in the preparation of these consolidated Financial Statements are set out below and in the supplementary information (note S2).

Basis of preparation

The consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU) and therefore comply with Article 4 of the EU IAS Regulation and the Companies Act 2006.

The consolidated Financial Statements have been prepared on the historical cost basis, except for derivative financial instruments, available-for-sale financial assets, financial instruments designated as at fair value through profit or loss on initial recognition, and the assets of the Group pension schemes that have been measured at fair value; and the liabilities of the Group pension schemes that are measured using the projected unit credit valuation method. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and are otherwise carried at cost, are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The preparation of Financial Statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It requires management to exercise its judgement in the processes of applying the Group's accounting policies. The areas involving a higher degree of judgement, complexity or areas where assumptions and estimates are significant to the consolidated Financial Statements are described in notes 2 and 3.

(a) Standards, amendments and interpretations effective in 2011

There are no IFRSs or IFRIC interpretations that are effective for the first time for the current financial year that have had a material impact on the Group.

(b) Standards, amendments and interpretations that are not yet effective and that have not been early adopted by the Group

At the date of authorisation of these Financial Statements, a number of standards, amendments to existing standards and interpretations have been issued but are not yet effective. The Group has not early adopted any of these. The standards and amendments to standards that could have an impact on the Group's future financial statements are: IFRS 9, 10, 11, 12, 13 and amendments to IAS 19. The Group is currently assessing the impact these may have.

(c) Change to operating segments

The Upstream UK operating structure is now presented in two segments, Gas and Power. These new segments are each based on the prior year segments of Upstream gas and oil and Power generation respectively. The remaining segments of Industrial and commercial and Proprietary energy trading have been allocated between the new Gas and Power segments. The new structure is consistent with how the Group reports to the Chief Operating Decision Maker defined in IFRS 8. Comparatives have been restated accordingly.

(d) Change to cash flow presentation in relation to emissions certificates/allowances

Cash flows in relation to the purchase of emissions certificates/allowances have previously been classified within investing cash flows, as emissions certificates/allowances are accounted for as intangible assets. The Group continues to account for emissions certificates/allowances as intangible assets in the Group Balance Sheet but the associated cash flows have now been included within working capital movements in operating cash flows in the Group Cash Flow Statement as this presentation better reflects the nature of the cash flows. In 2011, the cash outflow amounts to £216 million (2010: £255 million). Comparatives have been restated accordingly.

2. CENTRICA SPECIFIC ACCOUNTING MEASURES

Use of adjusted profit measures

The Directors believe that reporting adjusted profit and adjusted earnings per share measures provides additional useful information on business performance and underlying trends. These measures are used for internal performance purposes. The adjusted measures in this report are not defined terms under IFRS and may not be comparable with similarly titled measures reported by other companies.

The measure of operating profit used by management to evaluate segment performance is adjusted operating profit. Adjusted operating profit is defined as operating profit before:

- exceptional items
- certain re-measurements
- depreciation resulting from fair value uplifts to property, plant and equipment (PP&E) on the acquisition of Strategic Investments

but including:

- the Group's share of the results from joint ventures and associates before interest and taxation.

Note 4 contains an analysis of adjusted operating profit by segment and a reconciliation of adjusted operating profit to operating profit after exceptional items and certain re-measurements.

Adjusted earnings is defined as earnings before:

- exceptional items net of taxation
- certain re-measurements net of taxation and
- depreciation of fair value uplifts to PP&E on the acquisition of Strategic Investments, net of taxation.

A reconciliation of earnings is provided in note 11.

The Directors have determined that for Strategic Investments it is important to separately identify the earnings impact of increased depreciation arising from the acquisition-date fair value uplifts made to PP&E over their useful economic lives. As a result of the nature of fair value assessments in the energy industry, the value attributed to strategic assets is a subjective judgement based on a wide range of complex variables at a point in time. The subsequent depreciation of the fair value uplifts bears little relationship to current market conditions, operational performance or underlying cash generation. Management therefore reports and monitors the operational performance of Strategic Investments before the impact of depreciation on fair value uplifts to PP&E and the segmental results are presented on a consistent basis.

The Group has two Strategic Investments for which reported profits have been adjusted due to the impact of fair value uplifts. These Strategic Investments relate to the 2009 acquisitions of

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

2. CENTRICA SPECIFIC ACCOUNTING MEASURES CONTINUED

Venture Production plc ('Venture') the operating results of which are included within the Upstream UK – Gas segment and the acquisition of the 20% interest in Lake Acquisitions Limited ('British Energy'), which owned the British Energy Group, the results of which are included within the Upstream UK – Power segment.

(i) Venture

Significant adjustments have been made to the acquired PP&E to report the acquired oil and gas field interests at their acquisition-date fair values which are subsequently depreciated through the Group Income Statement over their respective useful economic lives using the unit of production method.

Whilst the impact of unwinding the PP&E at their acquisition-date fair values is included in overall reported profit for the year, the Directors have reversed the earnings impact of the increased depreciation and related taxation resulting from fair value uplifts to the acquired oil and gas interests in order to arrive at adjusted profit from continuing operations after taxation.

(ii) British Energy

The 20% interest in British Energy is accounted for as an investment in an associate using the equity method. Hence, the Group reports its share of the associate's profit or loss, which is net of interest and taxation, within the Group Income Statement.

The most significant fair value adjustments arising on the acquisition of the 20% investment in British Energy relate to the fair value uplifts made to the British Energy nuclear power stations to report the PP&E at their acquisition-date fair values and fair value uplifts made to British Energy's energy procurement contracts and energy sales contracts to report these at their acquisition-date fair values.

Whilst the impact of increased depreciation and related taxation through unwinding the fair value uplifts to the nuclear power stations is included in the share of associate's post-acquisition result included in overall reported Group profit for the year, the Directors have reversed these impacts in arriving at adjusted profit from continuing operations for the year. The impact of unwinding the acquisition-date fair values attributable to the acquired energy procurement and energy sales contracts is included within certain re-measurements.

Exceptional items and certain re-measurements

The Group reflects its underlying financial results in the 'business performance' column of the Group Income Statement. To be able to provide readers with this clear and consistent presentation, the effects of 'certain re-measurements' of financial instruments, and 'exceptional items', are reported separately in a different column in the Income Statement.

Certain re-measurements predominantly relate to fair value movements on a number of contracts (derivative instruments) entered into as part of the Group's energy procurement or sales activities. Primarily because these contracts include terms that permit net settlement, the rules within IAS 39 require the contracts to be individually fair valued. These individual, unrealised fair value movements do not reflect the underlying performance of the business because they are economically related to our Upstream assets or Downstream demand, which are not fair valued. Therefore, these certain re-measurements are reported separately.

Exceptional items are those items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence. Again, to ensure the business performance column reflects the underlying results of the Group, these exceptional items are also reported in a separate column in the Group Income Statement. Items which may be considered exceptional in nature include disposals of businesses, business restructurings, significant onerous contract charges, and asset write-downs.

See note S2 for a more detailed explanation of the accounting treatment for exceptional items and certain re-measurements.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

(a) Critical judgements in applying the Group's accounting policies

The Group's accounting policies as set out in note S2 and Notes to the Financial Statements include descriptions of judgements management has made in applying the Group's accounting policies. Areas of judgement that have the most significant effect on the amounts recognised in the Financial Statements (apart from those involving estimations which are dealt with below) include the following:

- the presentation of selected items as exceptional, see notes 2, 7 and S2;
- the use of adjusted profit and adjusted earnings per share measures, see notes 2, 4 and 11;
- the classification of energy procurement contracts as derivative financial instruments and presentation as certain re-measurements, see notes 2, 7 and 19.

In addition to those described above, management has made the following key judgements in applying the Group's accounting policies that have the most significant effect on the Group's Financial Statements.

Wind farm partial disposals

In the past few years, the Group has disposed of 50% of the equity voting capital (and 50% of the shareholder loans where relevant) in wind farm owning companies (for example, GLID Wind Farms TopCo Limited ('GLID') and Lincs Wind Farm Limited ('Lincs')).

As part of these disposals, the Group contracted to purchase a large percentage of the output produced by the wind farms under arm's length, 15-year, offtake agreements. The Group also contracted to provide management, operational and transitional support services to these companies as directed by their boards (and shareholders). Shareholders' agreements were put in place which included a number of reserved matters and provide for joint management of the major decisions of the companies.

Accordingly, the Directors have judged that the disposal of equity voting share capital (and shareholder loans) was a loss of control over the financial and operating policies of the companies. Therefore, the remaining investments are equity accounted as investments in joint ventures (see note 16). The Directors have also judged that the 15-year offtake agreements are not leasing arrangements. This is because the Group is not purchasing substantially all of the economic output of the wind farms. These contracts are considered to be outside the scope of IAS 39 apart from the embedded derivatives arising from the pricing terms which are marked to market separately.

Leases – third-party power station tolling arrangements

The Group has two long-term power station tolling contracts: (i) Spalding in the UK and (ii) Rijnmond in the Netherlands. The arrangements provide Centrica with the right to nominate 100%

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

of the plant output for the duration of the contracts in return for a mix of capacity payments and operating payments based on plant availability.

The Spalding contract runs until 2021 and Centrica holds an option to extend the tolling arrangement for a further eight years, exercisable by 30 September 2020. If extended, Centrica is granted an option to purchase the station at the end of this further period. The Directors have judged that the arrangement should be accounted for as a finance lease as the lease term is judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at inception date of the arrangement amounted to substantially all of the fair value of the power station at that time. Details of the interest charges, finance lease creditor and finance lease asset are included in notes 8, 12 and 15 respectively.

The Rijnmond contract runs until 2030 and Centrica does not have the right to extend the agreement or any option to purchase the plant. The Directors have judged that the arrangement should be accounted for as an operating lease as the lease term is not judged to be substantially all of the economic life of the power station and the present value of the minimum lease payments at inception date of the arrangement did not amount to substantially all of the fair value of the power station at that time. Details of the operating lease disclosures are included in note 34.

Business combinations and acquisitions – purchase price allocations

Business combinations and acquisitions of associates and joint ventures require a fair value exercise to be undertaken to allocate the purchase price (cost) to the fair value of the acquired identifiable assets, liabilities and contingent liabilities.

As a result of the nature of fair value assessments in the energy industry this purchase price allocation exercise requires subjective judgements based on a wide range of complex variables at a point in time. Management uses all available information to make the fair value determinations. Business combinations are set out in note 30.

EU Emissions Trading Scheme

In the absence of specific guidance under IFRS, the Group has adopted an accounting policy which recognises carbon dioxide emissions liabilities when the level of emissions exceeds the level of allowances granted by the Government in the period. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at market price of allowances ruling at the balance sheet date. Movements in the liability are reflected within operating profit. Forward contracts for sales and purchases of allowances are measured at fair value. The Directors have judged that this accounting policy most appropriately reflects the economic impact of the scheme on the Group.

(b) Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Revenue recognition – unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity comprises both billed and unbilled revenue. It is estimated through the billing systems, using historical consumption patterns, on a customer by customer basis, taking into account weather patterns, load forecasts and the differences between actual meter reads being returned and system estimates. Actual meter reads continue to be compared to system estimates between the balance sheet date and the finalisation of the accounts. An assessment is also made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Group, including bill cancellation and re-bill rates. To the extent that the economic benefits are not expected to flow to the Group, the value of that revenue is not recognised. The judgements applied, and the assumptions underpinning these judgements, are considered to be appropriate. However, a change in these assumptions would have an impact on the amount of revenue recognised.

Industry reconciliation process – cost of sales

Industry reconciliation procedures are required as differences arise between the estimated quantity of gas and electricity the Group deems to have supplied and billed customers, and the estimated quantity industry system operators deem the individual suppliers, including the Group, to have supplied to customers. Difference in deemed supply is referred to as imbalance. The reconciliation procedures can result in either a higher or lower value of industry deemed supply than has been estimated as being supplied to customers by the Group, but in practice tends to result in a higher value of deemed supply. The Group then reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Group's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimates the level of recovery of imbalance which will be achieved either through subsequent customer billing or through developing industry settlement procedures.

Decommissioning costs

The estimated cost of decommissioning at the end of the producing lives of fields (including storage assets) is reviewed periodically and is based on proven and probable reserves, price levels and technology at the balance sheet date. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs are uncertain and dependent on the lives of the facilities, but are currently anticipated to be incurred until 2055, with the majority of the costs expected to be paid between 2020 and 2030.

Significant judgements and estimates are also made about the costs of decommissioning British Energy's nuclear power stations and the costs of waste management and spent fuel. These estimates impact the carrying value of our investment. Various arrangements and indemnities are in place with the Secretary of State with respect to these costs, as explained in note S2.

Gas and liquids reserves

The volume of proven and probable ('2P') gas and liquids reserves is an estimate that affects the unit of production, depreciation of producing gas and liquids PP&E as well as being a significant estimate affecting decommissioning and impairment calculations. The factors impacting gas and liquids estimates, the process for estimating reserve quantities and reserve recognition are described on page 129.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

The impact of a change in estimated 2P reserves is dealt with prospectively by depreciating the remaining book value of producing assets over the expected future production. If 2P reserves estimates are revised downwards, earnings could be affected by higher depreciation expense or an immediate write-down (impairment) of the asset's book value.

Determination of fair values – energy derivatives

Fair values of energy derivatives are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. More detail on the assumptions used in determining fair valuations is provided in note 24.

Impairment of long-lived assets

The Group has several material long-lived assets that are assessed or tested for impairment at each reporting date in accordance with the Group's accounting policy as described in note S2. The Group make judgements and estimates in considering whether the carrying amounts of these assets or cash generating units (CGUs) are recoverable. The key assets that are subjected to impairment tests are upstream gas and oil assets, power generation assets, storage facility assets, nuclear investment (investment in associate) and goodwill.

Upstream gas and oil assets

The recoverable amount of the Group's gas and oil assets is determined by discounting the post-tax cash flows expected to be generated by the assets over their lives. The cash flows are derived from projected production profiles of each field, based predominantly on expected 2P reserves and take into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. The recoverable amount also takes into account assumptions market participants would use in estimating fair value.

Power generation assets

The recoverable amount of the Group's power generation assets is calculated by discounting the pre-tax cash flows expected to be generated by the assets and is dependent on views of forecast power generation, forecast power, gas and carbon prices (where applicable) and the timing and extent of capital expenditure. Where forward market prices are not available, prices are determined based on internal model inputs. The current year impairment charge in relation to UK gas-fired power stations assumes overcapacity in the UK power generation market post 2018 will diminish and normal returns will be achievable on our most efficient assets. Should the overcapacity not diminish, there is a risk of further impairment to assets with a total net book value of £664 million.

Storage facility assets

The recoverable amount of our planned storage facilities is calculated by discounting the post-tax cash flows expected to be generated by the assets based on predictions of seasonal gas price differentials and shorter term price volatilities less any related capital and operating expenditure. This is then compared to the book value. Should the business cases not support the planned investments, this risks a loss of pre-development costs incurred to date, as detailed in notes 14 and 15.

Nuclear investment

The recoverable amount of the Nuclear investment is based on the value of the existing British Energy nuclear fleet and the value of Nuclear New Build (NNB). The existing fleet value is calculated by discounting post-tax cash flows derived from the stations based on forecast power generation and power prices, whilst taking account of planned outages and the possibility of life extensions. The NNB value is similarly dependent on power prices and generation but also on build cost, decommissioning assessments and government support for nuclear. Should the business case not support the new nuclear investment, this would risk a loss of pre-development costs invested to date, as detailed in note 16.

Goodwill

Goodwill does not generate independent cash flows and accordingly is allocated at inception to specific CGUs or groups of CGUs for impairment testing purposes. The recoverable amounts of these CGUs are derived from estimates of future cash flows (as described in the asset classes above). The goodwill impairment tests are also subject to these key estimates.

Further detail on impairments arising and the assumptions used in determining the recoverable amounts is provided in notes 14 and 15.

Credit provisions for trade and other receivables

The methodology for determining provisions for credit losses on trade and other receivables and the level of such provisions is set out in note 18. Although the provisions recognised are considered appropriate, the use of different assumptions or changes in economic conditions could lead to changes in the provisions and therefore impact profit or loss.

Pensions and other post–employment benefits

The cost of providing benefits under defined benefit schemes is determined separately for each of the Group's schemes under the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. The key assumptions used for the actuarial valuation are based on the Group's best estimate of the variables that will determine the ultimate cost of providing post-employment benefits, on which further detail is provided in notes 29 and S6.

Provisions for onerous contracts

The Group has entered into a number of commodity procurement and capacity contracts related to specific assets in the ordinary course of its business. Where the unavoidable costs of meeting the obligations under these contracts exceed the associated, expected future net revenues, an onerous contract provision is recognised. The calculation of these provisions will involve the use of estimates. The key onerous provisions are as follows:

Rijnmond power station operating lease

The onerous provision is calculated using net revenue estimates related to power, gas and carbon forward prices less the tolling costs. The contract runs until 2030 and so there is currently no liquid market for these commodities for much of this period.

European gas transportation capacity contracts

The onerous provision is calculated using capacity costs incurred under the contracts, less any predicted income. The current year charge assumes that all contracts are onerous for the period to 2018 but that post-2018 the remaining capacities could still be necessary to secure supplies of gas into the UK. Therefore no provision has been recognised relating to this latter period.

North American wind farm power purchase agreements

The onerous nature of the power purchase agreements is measured using estimates relating to wind forecasts, forward curves for energy prices, balancing costs and renewable energy certificates for which there is not a liquid market for the full term of all the contracts.

Further detail of these provisions is provided in note 7.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. SEGMENTAL ANALYSIS

The Group's results are discussed in the Business Review (page 5 to 40). For a description of the products and services from which each reportable segment derives its revenues, see note S5. The Group's segmental results are as follows:

Year ended 31 December	2011			2010 (restated) (ii)		
(a) Revenue	**Gross segment revenue £m**	**Less inter-segment revenue (i) £m**	**Group revenue £m**	Gross segment revenue £m	Less inter-segment revenue (i) £m	Group revenue £m
Continuing operations:						
Residential energy supply	**8,113**	**(3)**	**8,110**	8,359	(4)	8,355
Residential services	**1,504**	**–**	**1,504**	1,464	–	1,464
Business energy supply and services	**2,702**	**(1)**	**2,701**	2,907	(1)	2,906
Downstream UK	**12,319**	**(4)**	**12,315**	12,730	(5)	12,725
Gas (ii)	**3,571**	**(521)**	**3,050**	2,490	(431)	2,059
Power (ii)	**1,588**	**(179)**	**1,409**	1,519	(13)	1,506
Upstream UK	**5,159**	**(700)**	**4,459**	4,009	(444)	3,565
Storage UK	**184**	**(20)**	**164**	267	(35)	232
Residential energy supply	**2,416**	**–**	**2,416**	2,502	–	2,502
Business energy supply	**2,748**	**–**	**2,748**	2,682	–	2,682
Residential and business services	**520**	**–**	**520**	485	–	485
Upstream and wholesale energy	**433**	**(231)**	**202**	328	(96)	232
North America	**6,117**	**(231)**	**5,886**	5,997	(96)	5,901
	23,779	**(955)**	**22,824**	23,003	(580)	22,423
Discontinued operations:						
European Energy (note 31)	**167**	**–**	**167**	590	–	590

(i) Inter-segment revenue is subject to year on year fluctuations due to the change in the mix of internal and external energy sales by Upstream UK.
(ii) The Industrial and commercial and Proprietary energy trading businesses have been reallocated into the new Power and Gas segments. See note 1(c).

The Group operates in the following geographical areas:

Year ended 31 December	Revenue (based on location of customer)	
	2011 £m	2010 (restated) (i) £m
Continuing operations:		
UK	**15,760**	15,811
USA	**3,787**	3,729
Canada	**2,100**	2,173
Rest of the world	**1,177**	710
	22,824	22,423

(i) During the year a system upgrade has enabled a more detailed geographic analysis of assets. Prior year figures have been restated accordingly.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. SEGMENTAL ANALYSIS CONTINUED

Year ended 31 December

(b) Operating profit	2011 £m	2010 (restated) (i) £m
Continuing operations:		
Residential energy supply	**522**	742
Residential services	**264**	241
Business energy supply and services	**219**	233
Downstream UK	**1,005**	1,216
Gas [i] [ii]	**769**	566
Power [i] [ii]	**254**	205
Upstream UK	**1,023**	771
Storage UK	**75**	169
Residential energy supply	**161**	177
Business energy supply	**110**	88
Residential and business services	**28**	15
Upstream and wholesale energy	**13**	(46)
North America	**312**	234
Adjusted operating profit – segment operating profit before exceptional items, certain re-measurements and impact of fair value uplifts from Strategic Investments [iii]	**2,415**	2,390
Share of joint ventures/associates' interest and taxation	**(102)**	(78)
Depreciation of fair value uplifts to property, plant and equipment – Venture [ii]	**(64)**	(60)
Depreciation of fair value uplifts to property, plant and equipment (net of taxation) – associates – British Energy [ii]	**(41)**	(58)
	2,208	2,194
Exceptional items (note 7)	**(331)**	(283)
Certain re-measurements included within gross profit (note 7)	**(437)**	1,177
Certain re-measurements of associates' energy contracts (net of taxation) (note 7)	**(26)**	(14)
Operating profit after exceptional items and certain re-measurements	**1,414**	3,074
Discontinued operations:		
European Energy (note 31) [iv]	**13**	(5)

(i) The Industrial and commercial and Proprietary energy trading businesses have been reallocated into the new Power and Gas segments. See note 1(c).
(ii) See note 2 and note 11 for explanation of the depreciation on fair value uplifts to PP&E on acquiring Strategic Investments.
(iii) Includes results of equity-accounted interests before interest and taxation.
(iv) Represents profit/(loss) after taxation and before exceptional items and certain re-measurements of Oxxio B.V. up to the date of disposal. This is the measure of results of discontinued operations that is reported regularly to the Group's Executive Committee.

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. SEGMENTAL ANALYSIS CONTINUED

(c) Included within adjusted operating profit

Year ended 31 December	Share of results of joint ventures and associates before interest and taxation		Depreciation and impairments of property, plant and equipment (i)		Amortisation, write-downs and impairments of intangibles	
	2011 £m	2010 (restated) (iii) £m	2011 £m	2010 (restated) (iii) £m	2011 £m	2010 (restated) (iii) £m
Continuing operations:						
Residential energy supply	**–**	–	**8**	6	**23**	38
Residential services	**–**	–	**18**	9	**6**	1
Business energy supply and services	**–**	–	**2**	2	**7**	7
Downstream UK	**–**	–	**28**	17	**36**	46
Gas (i) (ii) (iii)	**(1)**	3	**503**	487	**52**	91
Power (i) (iii) (iv)	**237**	140	**112**	120	**4**	1
Upstream UK	**236**	143	**615**	607	**56**	92
Storage UK	**–**	–	**30**	26	**–**	–
Residential energy supply	**–**	–	**1**	–	**9**	5
Business energy supply	**–**	–	**1**	1	**4**	4
Residential and business services	**–**	–	**3**	2	**6**	5
Upstream and wholesale energy (ii)	**–**	–	**89**	88	**4**	3
North America	**–**	–	**94**	91	**23**	17
Other (v)	**–**	–	**19**	15	**25**	19
	236	143	**786**	756	**140**	174

(i) Depreciation of PP&E is stated before depreciation of fair value uplifts for Strategic Investments.
(ii) During 2011, £46 million of write downs relating to exploration and evaluation assets were incurred in Upstream UK (2010: £81 million in Upstream UK and £2 million in Upstream North America), as described in note 14.
(iii) The Industrial and commercial and Proprietary energy trading businesses have been reallocated into the new Power and Gas segments. See note 1(c).
(iv) Share of results of joint ventures and associates is before interest, certain re-measurements, depreciation of fair value uplifts to PP&E on Strategic Investments and taxation.
(v) Other comprises depreciation of PP&E and amortisation and write-downs of intangibles on Corporate Centre assets which are charged out to other Group segments.

(d) Assets and liabilities

The Group operates in the following geographical areas:

31 December	Non-current assets (based on location of assets) (i)	
	2011 £m	2010 (restated) (ii) £m
Continuing operations:		
UK	**9,146**	8,955
Canada	**1,349**	1,381
USA	**1,064**	820
Rest of the world	**1,212**	1,203
	12,771	12,359

(i) Non-current assets include goodwill, other intangible assets, PP&E and interest in joint ventures and associates.
(ii) During the year a system upgrade has enabled a more detailed geographic analysis of assets. Comparatives have been restated accordingly.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. SEGMENTAL ANALYSIS CONTINUED

31 December	Net segment assets/(liabilities)		Average capital employed Year ended 31 December	
(d) Assets and liabilities continued	**2011 £m**	2010 (restated) (i) £m	**2011 £m**	2010 (restated) (i) £m
Residential energy supply	**125**	27	**151**	195
Residential services	**254**	225	**258**	95
Business energy supply and services	**558**	516	**569**	552
Downstream UK	**937**	768	**978**	842
Gas (i)	**2,427**	2,894	**1,500**	1,240
Power (i)	**3,534**	3,677	**3,335**	3,446
Upstream UK	**5,961**	6,571	**4,835**	4,686
Storage UK	**517**	347	**221**	206
Residential energy supply	**925**	731	**715**	709
Business energy supply	**459**	441	**315**	288
Residential and business services	**377**	400	**366**	323
Upstream and wholesale energy	**733**	784	**677**	659
North America	**2,494**	2,356	**2,073**	1,979
	9,909	10,042	**8,107**	7,713
Unallocated current and deferred tax balances	**186**	217		
Derivative financial instruments held for energy procurement (i)	**(1,214)**	(715)		
Bank overdrafts and loans, securities and treasury derivatives	**(3,868)**	(3,716)		
Retirement benefit assets/(obligations)	**330**	(239)		
Corporate centre assets and discontinued operations (iii)	**257**	230		
Non-operating liabilities	**(4,309)**	(4,223)		
	5,600	5,819		

(i) The Industrial and commercial and Proprietary energy trading businesses have been reallocated into the new Power and Gas segments. See note 1(c).
(ii) Includes balances held by joint ventures/associates.
(iii) During 2010 assets and liabilities of discontinued operations were classified as held for sale.

Capital employed represents the investment required to operate each of the Group's segments. Capital employed is used by the Group to calculate the return on capital employed for each of the Group's segments as part of the Group's managing for value concept. Additional value is created when the return on capital employed exceeds the cost of capital. Net segment assets of the Group can be reconciled to the Group's capital employed as follows:

	2011 £m	2010 £m
Net segment assets at 31 December	**9,909**	10,042
Deduct:		
Intra-Group balances	**56**	26
Pre-productive assets	**(2,287)**	(1,659)
Margin call debtor	**(188)**	(161)
Cash at bank, in transit and in hand excluding certain restricted cash	**(44)**	(117)
Effect of averaging	**661**	(418)
Average capital employed for year ended 31 December	**8,107**	7,713

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

4. SEGMENTAL ANALYSIS CONTINUED

(e) Capital expenditure

Year ended 31 December	Capital expenditure on property, plant and equipment (note 15) 2011 £m	Capital expenditure on property, plant and equipment (note 15) 2010 (restated) (i) £m	Capital expenditure on intangible assets other than goodwill (note 14) 2011 £m	Capital expenditure on intangible assets other than goodwill (note 14) 2010 (restated) (i) (ii) £m
Continuing operations:				
Residential energy supply	**48**	15	**240**	256
Residential services	**6**	6	**22**	15
Business energy supply and services	**3**	1	**75**	68
Downstream UK	**57**	22	**337**	339
Gas (i)	**488**	383	**97**	230
Power (i)	**89**	82	**6**	28
Upstream UK	**577**	465	**103**	258
Storage UK	**59**	33	**–**	–
Residential energy supply	**–**	–	**4**	2
Business energy supply	**1**	–	**18**	10
Residential and business services	**2**	2	**1**	5
Upstream and wholesale energy	**36**	20	**8**	10
North America	**39**	22	**31**	27
Other	**26**	16	**49**	29
Capital expenditure on continuing operations	**758**	558	**520**	653
(Decrease)/increase in prepayments related to capital expenditure	**(15)**	18	**–**	6
Capitalised borrowing costs	**(46)**	(37)	**–**	–
Decrease/(increase) in trade payables related to capital expenditure	**68**	8	**(5)**	2
Purchases of emissions allowances and renewable obligations certificates (ii)	**–**	–	**(216)**	(255)
Net cash outflow	**765**	547	**299**	406

(i) The Industrial and commercial and Proprietary energy trading businesses have been reallocated into the new Power and Gas segments. See note 1(c).
(ii) The 2010 comparatives have been restated for a change in presentation of emission certificate/allowance cash flows, see note 1(d).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

5. COSTS OF CONTINUING OPERATIONS

Analysis of costs by nature

	2011 £m	2010 £m
Transportation, distribution and metering costs	**(3,718)**	(3,627)
Commodity costs	**(11,208)**	(11,295)
Depreciation, amortisation and write-downs	**(757)**	(770)
Employee costs	**(672)**	(565)
Other direct costs relating to the upstream businesses	**(389)**	(273)
Other direct costs relating to the downstream businesses	**(1,215)**	(1,065)
Total cost of sales before exceptional items and certain re-measurements	**(17,959)**	(17,595)
Exceptional items and certain re-measurements (note 7)	**(658)**	1,075
Total cost of sales	**(18,617)**	(16,520)
Depreciation, amortisation and write-downs	**(233)**	(224)
Employee costs	**(1,188)**	(1,068)
Exploration costs expensed	**(36)**	(7)
Impairment of trade receivables (note 18)	**(222)**	(269)
Foreign exchange gains	**–**	1
Other costs associated with upstream businesses	**(175)**	(137)
Other costs associated with downstream businesses	**(896)**	(937)
Total operating costs before exceptional items and certain re-measurements	**(2,750)**	(2,641)
Exceptional items and certain re-measurements (note 7)	**(110)**	(181)
Total operating costs	**(2,860)**	(2,822)

6. DIRECTORS AND EMPLOYEES

(a) Employee costs (i)

	2011 £m	2010 £m
Wages and salaries	**(1,562)**	(1,345)
Social security costs	**(137)**	(115)
Pension and other post-employment benefits costs	**(129)**	(134)
Share scheme costs	**(40)**	(48)
	(1,868)	(1,642)
Capitalised employee costs	**8**	9
Employee costs recognised in the Group Income Statement	**(1,860)**	(1,633)

(i) Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 52 to 63 form part of these Financial Statements. Details of employee share-based payments are given in note 32. Details of the remuneration of key management personnel are given in note 35.

(b) Average number of employees during the year

	2011 Number	2010 Number
Downstream UK	**31,278**	27,298
Upstream UK	**1,658**	1,556
Storage UK	**290**	255
North America	**6,206**	5,534
European operations (note 31)	**–**	327
	39,432	34,970

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

7. EXCEPTIONAL ITEMS AND CERTAIN RE-MEASUREMENTS

(a) Exceptional items for the year ended 31 December

	2011 £m	2010 £m
Continuing operations:		
Provision for European onerous capacity contracts (i)	**(221)**	–
Provision for North American and UK onerous commodity contracts	**–**	(102)
Exceptional items from continuing operations included within gross profit	**(221)**	(102)
Impairments:		
Impairment of UK generation assets (ii)	**(226)**	(68)
Impairment of North American and UK exploration and production assets	**–**	(95)
	(226)	(163)
Downstream UK contract migration (iii)	**(63)**	(43)
Restructuring charges (iv)	**(154)**	–
Profit on disposal of investments	**–**	25
Pension curtailment (note 29)	**333**	–
	(110)	(181)
Exceptional items from continuing operations included within Group operating profit	**(331)**	(283)
Taxation on exceptional items (note 9)	**69**	118
Effect of change in UK supplementary tax charge (note 9)	**(204)**	–
Net exceptional items from continuing operations after taxation	**(466)**	(165)
Discontinued operations:		
Loss on disposal of Oxxio B.V. after taxation (note 31)	**(56)**	–
Total exceptional items after taxation	**(522)**	(165)

(b) Certain re-measurements for the year ended 31 December

	2011 £m	2010 £m
Continuing operations:		
Certain re-measurements recognised in relation to energy contracts:		
Net gains arising on delivery of contracts (v)	**200**	1,023
Net (losses)/gains arising on market price movements and new contracts (vi)	**(632)**	130
Net (losses)/gains arising on positions in relation to cross-border transportation or capacity contracts	**(5)**	24
Net re-measurements from continuing operations included within gross profit	**(437)**	1,177
Net losses arising on re-measurement of associates' energy contracts (net of taxation) (vii)	**(26)**	(14)
Net re-measurements included within Group operating profit	**(463)**	1,163
Taxation on certain re-measurements (note 9)	**119**	(339)
Net re-measurements from continuing operations after taxation	**(344)**	824
Discontinued operations:		
Net re-measurements on energy contracts of discontinued operations after taxation (note 31)	**22**	67
Total re-measurements after taxation	**(322)**	891

(i) As a result of the decision to withdraw from Europe the Group recorded onerous contract charges of £111 million for a number of European gas transportation capacity contracts and a further £110 million for the fixed price Rijnmond tolling contract due to the impact of low market spark spreads.
(ii) Impairment charges have been recognised on a number of UK generation assets (including PP&E and inventory) as a result of low spark spreads, which led to the impairment of Killingholme, proposed closure of Barry and Kings Lynn and the operational reconfiguration of Brigg, Peterborough and Roosecote.
(iii) Exceptional charges have been recorded following the termination in December 2010 and subsequent migration of a significant supplier contract.
(iv) Relates to a Group-wide cost reduction programme leading to staff redundancies. See Business Review for more details.
(v) As energy is delivered or consumed from previously contracted positions the related fair value recognised in the opening balance sheet (representing the discounted difference between forward energy prices at the opening balance sheet date and the contract price of energy to be delivered) is charged or credited to the Income Statement.
(vi) Represents fair value (losses)/gains arising from the change in fair value of future contracted sales and purchase contracts as a result of changes in forward energy prices between reporting dates (or date of inception and the reporting date, where later).
(vii) Includes fair value unwinds relating to the recognition of energy procurement contracts and energy sales contracts at their acquisition-date fair values.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

8. NET INTEREST

Year ended 31 December	2011 Interest expense £m	2011 Interest income £m	2011 Total £m	2010 Interest expense £m	2010 Interest income £m	2010 Total £m
Continuing operations:						
Cost of servicing net debt:						
Interest income	–	37	37	–	30	30
Interest expense on bonds, bank loans and overdrafts (i)	(176)	–	(176)	(284)	–	(284)
Interest expense on finance leases	(19)	–	(19)	(21)	–	(21)
	(195)	37	(158)	(305)	30	(275)
(Losses)/gains on revaluation:						
(Losses)/gains on fair value hedges	(83)	72	(11)	(47)	47	–
Fair value (losses)/gains on other derivatives (ii)	(71)	35	(36)	(121)	9	(112)
Fair value gains on other securities measured at fair value	–	14	14	–	10	10
Net foreign exchange translation of monetary assets and liabilities (iii)	–	19	19	–	85	85
	(154)	140	(14)	(168)	151	(17)
Notional interest arising from discounting and other interest (iv)	(55)	35	(20)	(43)	33	(10)
	(404)	212	(192)	(516)	214	(302)
Capitalised borrowing costs (v)	46	–	46	37	–	37
Interest (expense)/income	(358)	212	(146)	(479)	214	(265)

(i) During December 2010 Centrica reduced its outstanding bond debt principal by £151 million and €383 million.
(ii) Primarily reflects changes in the fair value of derivatives used to hedge the foreign exchange exposure associated with inter-company loans denominated in foreign currencies.
(iii) Primarily reflects foreign exchange gains on loans denominated in foreign currencies.
(iv) Other interest includes interest received for cash collateral balances and interest on supplier early payment arrangements.
(v) Borrowing costs have been capitalised using an average rate of 4.94% (2010: 4.78%).

9. TAXATION

(a) Analysis of tax charge for the year

	2011 Business performance £m	2011 Exceptional items and certain re-measurements £m	2011 Results for the year £m	2010 Business performance £m	2010 Exceptional items and certain re-measurements £m	2010 Results for the year £m
Current tax						
UK corporation tax	(529)	69	(460)	(464)	23	(441)
UK petroleum revenue tax	(220)	–	(220)	(223)	–	(223)
Foreign tax	(107)	10	(97)	(15)	(6)	(21)
Adjustments in respect of prior years	23	–	23	171	–	171
Total current tax	(833)	79	(754)	(531)	17	(514)
Deferred tax						
Current year	(40)	90	50	(81)	(235)	(316)
UK petroleum revenue tax	46	–	46	7	–	7
Foreign deferred tax	(24)	17	(7)	(39)	7	(32)
Change in tax rates	30	(201)	(171)	15	(1)	14
Adjustments in respect of prior years	11	(1)	10	(79)	(9)	(88)
Total deferred tax	23	(95)	(72)	(177)	(238)	(415)
Total tax on profit from continuing operations (i)	(810)	(16)	(826)	(708)	(221)	(929)

(i) Total tax on profit from continuing operations excludes taxation on the Group's share of profits in joint ventures and associates.

Tax on items taken directly to equity is disclosed in notes 27 and 28. The Group earns its profits primarily in the UK, therefore the tax rate used for tax on profit from ordinary activities is the standard rate for UK corporation tax, which from 1 April 2011 was 26% (2010: 28%), with the exception of upstream profits, which were taxed at a UK corporation tax rate of 30% (2010: 30%) plus a supplementary charge. From 29 March 2011, the supplementary charge was increased to 32% (2010: 20%). Also announced in March 2011, was an intention to restrict from 2012, the rate of tax relief on decommissioning costs from the current 62% to 50%. If enacted, a one-off charge of approximately £60 million will arise from revaluing the related deferred tax provisions.

Certain upstream assets also bear petroleum revenue tax at 50% (2010: 50%). Taxation for other jurisdictions is calculated at the rates prevailing in those respective jurisdictions.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

9. TAXATION CONTINUED

The UK Government has announced its intention to propose Parliament reduce the main rate of UK corporation tax to 23% by 1 April 2014. At 31 December 2011 a reduction in the rate to 25% had been substantively enacted so the relevant UK deferred tax assets and liabilities included in these Financial Statements have been based on that rate. The effect of the additional proposed reduction in the UK corporation tax rate by 2014 would be to decrease the net deferred tax liability by £11 million.

(b) Factors affecting the tax charge for the year

The differences between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax are as follows:

	2011			2010		
	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m	Business performance £m	Exceptional items and certain re-measurements £m	Results for the year £m
Profit from continuing operations before tax	**2,062**	**(794)**	**1,268**	1,929	880	2,809
Less: share of profits in joint ventures and associates, net of interest and taxation	**(93)**	**26**	**(67)**	(7)	14	7
Group profit from continuing operations before tax	**1,969**	**(768)**	**1,201**	1,922	894	2,816
Tax on profit from continuing operations at standard UK corporation tax rate of 26.5% (2010: 28%)	**(522)**	**204**	**(318)**	(538)	(250)	(788)
Effects of:						
Net expenses not deductible for tax purposes	**(20)**	**–**	**(20)**	(42)	15	(27)
Movement in unrecognised deferred tax assets	**(28)**	**(31)**	**(59)**	(8)	1	(7)
UK petroleum revenue tax rates	**(128)**	**–**	**(128)**	(152)	–	(152)
Overseas tax rates	**(24)**	**15**	**(9)**	(2)	(4)	(6)
Additional charges applicable to upstream profits	**(152)**	**(2)**	**(154)**	(73)	27	(46)
Changes to tax rates	**30**	**(201)**	**(171)**	15	(1)	14
Adjustments in respect of prior years	**34**	**(1)**	**33**	92	(9)	83
Taxation on profit from continuing operations	**(810)**	**(16)**	**(826)**	(708)	(221)	(929)

(c) Factors that may affect future tax charges

Production of gas and oil within the UK continental shelf is subject to several taxes: corporation tax at 30% (2010: 30%) on profits of gas and oil production, a supplementary charge at 32% (2010: 20%) on profits of gas and oil production (adjusted for financing costs) and petroleum revenue tax (PRT) at 50% (2010: 50%) on income generated from certain gas and oil production (net of certain costs).

PRT is a deductible expense for the purposes of corporation tax and the supplementary charge. The effective rate of tax suffered on profits of UK gas production therefore falls between 62% and 81% (2010: 50% and 75%). To the extent that the Group's profits are earned from UK gas and oil production, its effective tax rate will remain above the current UK statutory rate of 26% (2010: 28%).

Income earned in territories outside the UK, notably in the USA and Norway, is generally subject to higher effective rates of tax than the current UK statutory rate. In the medium term, particularly given additional investments being made in Norway, the Group's effective tax rate is expected to remain above the UK statutory rate.

10. DIVIDENDS

	2011			2010		
	£m	Pence per share	Date of payment	£m	Pence per share	Date of payment
Prior year final dividend	**540**	**10.46**	**15 Jun 2011**	470	9.14	16 Jun 2010
Interim dividend	**222**	**4.29**	**16 Nov 2011**	198	3.84	17 Nov 2010
	762			668		

The Directors propose a final dividend of 11.11 pence per ordinary share (totalling £575 million) for the year ended 31 December 2011. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 11 May 2012 and, subject to approval, will be paid on 13 June 2012 to those shareholders registered on 27 April 2012.

11. EARNINGS PER ORDINARY SHARE

Basic earnings per ordinary share has been calculated by dividing the earnings attributable to equity holders of the Company for the year of £421 million (2010: £1,935 million) by the weighted average number of ordinary shares in issue during the year of 5,159 million (2010: 5,146 million). The number of shares excludes seven million ordinary shares (2010: six million), being the weighted average number of the Company's own shares held in the employee share trust which are treated as treasury shares. The Directors believe that the presentation of adjusted basic earnings per ordinary share, being the basic earnings per ordinary share adjusted for certain re-measurements, exceptional items and the impact of Strategic Investments, assists with understanding the underlying performance of the Group, as explained in note 2.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

11. EARNINGS PER ORDINARY SHARE CONTINUED

The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

Year ended 31 December	2011		2010	
(a) Continuing and discontinued operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings – basic	**421**	**8.2**	1,935	37.6
Net exceptional items after taxation (notes 2 and 7)	**522**	**10.1**	165	3.2
Certain re-measurement losses/(gains) after taxation (notes 2 and 7)	**322**	**6.2**	(891)	(17.3)
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**68**	**1.3**	88	1.7
Earnings – adjusted basic	**1,333**	**25.8**	1,297	25.2
Earnings – diluted	**421**	**8.1**	1,935	37.3
Earnings – adjusted diluted	**1,333**	**25.6**	1,297	25.0

Strategic Investments

During 2009, the Group acquired a 20% interest in British Energy and the entire share capital of Venture. As explained in note 2, the depreciation relating to fair value uplifts of the acquired Venture PP&E and associated taxation is excluded in arriving at adjusted earnings for the year, which amounted to £64 million (2010: £60 million) depreciation and a taxation credit of £37 million (2010: £30 million) in the period. Additionally, the impact of depreciation arising on fair value uplifts attributed to the British Energy nuclear power stations and related taxation included within the Group's share of the post-taxation results of the associate is excluded in arriving at adjusted earnings for the period, which amounted to £41 million (2010: £58 million) net of taxation.

Year ended 31 December	2011		2010	
(b) Continuing operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
Earnings – basic	**442**	**8.6**	1,873	36.4
Net exceptional items after taxation (notes 2 and 7)	**466**	**9.0**	165	3.2
Certain re-measurement losses/(gains) after taxation (notes 2 and 7)	**344**	**6.7**	(824)	(16.0)
Depreciation of fair value uplifts to property, plant and equipment from Strategic Investments, after taxation	**68**	**1.3**	88	1.7
Earnings – adjusted basic	**1,320**	**25.6**	1,302	25.3
Earnings – diluted	**442**	**8.5**	1,873	36.1
Earnings – adjusted diluted	**1,320**	**25.4**	1,302	25.1

Year ended 31 December	2011		2010	
(c) Discontinued operations	**£m**	**Pence per ordinary share**	£m	Pence per ordinary share
(Loss)/earnings – basic and diluted	**(21)**	**(0.4)**	62	1.2

Certain re-measurements (notes 2 and 7) included within operating profit and discontinued operations comprise re-measurements arising on energy procurement activities and re-measurements of proprietary trades in relation to cross-border transportation or capacity contracts. All other re-measurements are included within results before exceptional items and certain re-measurements.

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted and adjusted diluted earnings per ordinary share. Under this presentation, no adjustments are made to the reported earnings for either 2011 or 2010, however the weighted average number of shares used as the denominator is adjusted for potentially dilutive ordinary shares.

(d) Weighted average number of shares	**2011 Million shares**	2010 Million shares
Weighted average number of shares used in the calculation of basic earnings per ordinary share	**5,159**	5,146
Dilutive impact of share-based payment schemes	**44**	45
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	**5,203**	5,191

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

12. SOURCES OF FINANCE

The Group funds its business using a combination of debt and shareholders' equity.

31 December	2011 £m	2010 £m
Net debt	**3,435**	3,312
Shareholders' equity	**5,600**	5,819
Capital	**9,035**	9,131

The Group seeks to maintain an efficient capital structure with a balance of debt and equity. Debt levels are restricted to limit the risk of financial distress and, in particular, to maintain strong credit ratings. The Group's credit ratings are important for several reasons, to:

- maintain a low cost of debt;
- limit collateral requirements in energy trading, hedging and decommissioning security arrangements; and
- ensure the Group is an attractive counterparty to energy producers and long term customers.

At 31 December 2011, the Group's long-term credit rating was A3 stable outlook for Moody's Investor Services Limited and A– stable outlook for Standard & Poor's Credit Market Services Europe Limited. These ratings did not change during 2011.

The Group monitors its current and projected capital position on a regular basis, considering a medium-term view of three to five years, and different stress case scenarios, including the impact of changes in the Group's credit ratings and significant movements in commodity prices. A number of financial ratios are monitored, including those used by the credit rating agencies, such as debt to cash flow ratios and EBITDA to gross interest expense. At 31 December 2011, the ratio of the Group's net debt to EBITDA was 1.1 (2010: 1.0). EBITDA to gross interest expense for the year ended 31 December 2011 was 8.7 (2010: 6.7).

British Gas Insurance Limited (BGIL) is required under FSA regulations to hold a minimum capital amount and has complied with this requirement in 2011 (and 2010). For the remainder of the Group, the level of debt that can be raised is restricted by the Company's Articles of Association. Net debt is limited to the greater of £5.0 billion and a gearing ratio of three times adjusted capital and reserves. Based on adjusted capital and reserves as at 31 December 2011 of £5.6 billion, the limit for net debt was £16.8 billion. The Group funds its debt principally through issuing bonds. In addition the Group also maintains substantial committed facilities from banks (see note 25), but generally uses these to provide backup liquidity and does not typically draw on them.

(a) Net debt summary

	2011 £m	2010 £m
Cash at bank, in transit and in hand	**94**	114
Short-term deposits	**424**	353
Cash and cash equivalents (i)	**518**	467
Securities – current (ii)	**28**	23
Securities – non-current (ii)	**190**	234
Current and non-current borrowings	**(4,171)**	(4,036)
Net debt at the end of the year	**(3,435)**	(3,312)

(i) Cash and cash equivalents includes £262 million (2010: £206 million) mostly held by the Group's insurance subsidiary undertakings that is not readily available to be used for other purposes within the Group.
(ii) Securities balances include £91 million of available for sale financial assets (2010: £93 million).

(b) Borrowings summary

	Coupon rate %	Principal m	2011 Current £m	2011 Non-current £m	2011 Total £m	2010 Current £m	2010 Non-current £m	2010 Total £m
Bank overdrafts and loans			**69**	**198**	**267**	52	225	277
Bonds (by maturity date):								
2 November 2012	5.875	£284	**291**	**–**	**291**	–	296	296
27 February 2013	1.045	¥3,000	**–**	**26**	**26**	–	25	25
9 December 2013	7.125	€367	**–**	**317**	**317**	–	326	326
4 November 2014	Floating	$100	**–**	**64**	**64**	–	64	64
10 December 2014	5.125	£315	**–**	**335**	**335**	–	329	329
31 March 2015	Floating	$70	**–**	**45**	**45**	–	45	45
24 October 2016	5.500	£300	**–**	**336**	**336**	–	320	320
19 September 2018	7.000	£400	**–**	**473**	**473**	–	444	444
10 March 2022	6.375	£500	**–**	**527**	**527**	–	527	527
4 September 2026	6.400	£200	**–**	**224**	**224**	–	209	209
16 April 2027	5.900	$70	**–**	**45**	**45**	–	45	45
19 September 2033	7.000	£770	**–**	**777**	**777**	–	777	777
			291	**3,169**	**3,460**	–	3,407	3,407
Commercial paper			**114**	**–**	**114**	–	–	–
Obligations under finance leases			**28**	**302**	**330**	25	327	352
			502	**3,669**	**4,171**	77	3,959	4,036

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. NOTES TO THE GROUP CASH FLOW STATEMENT

(a) Reconciliation of Group operating profit to cash generated from continuing operations

	2011 £m	2010 (restated) (i) £m
Continuing operations		
Group operating profit including share of result of joint ventures and associates	**1,414**	3,074
Less share of (profit)/loss of joint ventures and associates	**(67)**	7
Group operating profit before share of results of joint ventures and associates	**1,347**	3,081
Add back/(deduct):		
Amortisation and write-down of intangible assets	**140**	176
Depreciation and write-down of property, plant and equipment	**1,055**	973
Recycling of write-down of available-for-sale financial assets (ii)	**23**	4
Loss/(profit) on sale of businesses, property, plant and equipment and other intangible assets	**5**	(22)
Increase in provisions	**395**	159
Net pension curtailment (gain)/loss	**(332)**	14
Pension service cost	**118**	115
Pension contributions	**(130)**	(441)
Employee share scheme costs	**40**	48
Re-measurement of energy contracts (iii)	**404**	(1,097)
Operating cash flows before movements in working capital	**3,065**	3,010
(Increase)/decrease in inventories	**(79)**	31
Decrease in trade and other receivables (iv)	**201**	162
Increase/(decrease) in trade and other payables (i) (iv)	**42**	(13)
Cash generated from continuing operations	**3,229**	3,190

(i) The 2010 comparatives have been restated for a change in presentation of emission certificate/allowance cash flows, see note 1(d).
(ii) The 2010 comparative of £4 million is impairment of joint ventures and associates.
(iii) Adds back unrealised losses/(gains) arising from re-measurement of energy contracts.
(iv) Includes net outflow of £26 million of cash collateral in 2011 (2010: net inflow of £466 million).

(b) Reconciliation of net increase in cash and cash equivalents to movement in net debt

	2011 £m	2010 £m
Net increase/(decrease) in cash and cash equivalents	**30**	(833)
Increase in cash and cash equivalents of disposal groups classified as held for sale	**–**	16
	30	(817)
Add back/(deduct):		
Net (sale)/purchase of securities	**(48)**	56
Cash inflow from additional debt	**(114)**	(267)
Cash outflow from payment of capital element of finance leases	**25**	23
Cash outflow from repayment of other debt	**30**	928
	(77)	(77)
Revaluation of:		
Securities	**10**	7
Loans and other borrowings	**(59)**	(40)
	(126)	(110)
Increase in interest payable on loans and other borrowings	**(2)**	(2)
Acquisitions	**(3)**	–
Disposals	**–**	(56)
Exchange adjustments	**8**	(8)
Movement in net debt	**(123)**	(176)
Net debt at 1 January	**(3,312)**	(3,136)
Net debt at the end of the year	**(3,435)**	(3,312)

(c) Exploration and evaluation cash flows

Included within the £299 million (2010: £406 million) purchase of intangible assets in investing activities is £85 million (2010: £224 million) relating to exploration and evaluation of oil and gas assets.

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

13. NOTES TO THE GROUP CASH FLOW STATEMENT CONTINUED

(d) Relationship between current tax charge and taxes paid	UK £m	North America £m	Other £m	**2011 £m**	2010 £m
Current tax charge:					
Corporation tax	438	55	41	**534**	291
Petroleum revenue tax	220	–	–	**220**	223
	658	**55**	**41**	**754**	514
Taxes paid:					
Corporation tax	389	42	(1)	**430**	412
Petroleum revenue tax	262	–	–	**262**	128
	651	**42**	**(1)**	**692**	540

Differences between current tax charged and taxes paid arose principally due to the following factors:

- Corporation tax is generally paid, based on estimated profits, partly during the year and partly in the following year. Fluctuations in profits from year to year may therefore give rise to divergence between the charge for the current year and taxes paid; and
- Petroleum revenue tax payments are based on income realised in the preceding period, with subsequent adjustments to reflect actual profits. Variations in production from period to period may therefore lead to temporary differences between tax charged and tax paid.

14. GOODWILL AND OTHER INTANGIBLE ASSETS

(a) Carrying amounts	Goodwill £m	Application software (i) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Other (ii) £m	**Total £m**	Goodwill £m	Application software (i) £m	EUAs and ROCs £m	Exploration and evaluation expenditure £m	Other (ii) £m	Total £m
	2011						2010					
Cost												
1 January	2,378	796	186	376	231	**3,967**	2,094	633	188	193	188	3,296
Additions	–	219	216	85	–	**520**	–	177	242	225	–	644
Acquisitions (note 30)	153	4	–	–	129	**286**	219	4	–	42	43	308
Disposals	–	(66)	–	(6)	–	**(72)**	–	(31)	–	(6)	(1)	(38)
Surrenders	–	–	(280)	–	–	**(280)**	–	–	(245)	–	–	(245)
Write-downs	–	–	–	(46)	–	**(46)**	–	–	–	(83)	–	(83)
Transfers (iii)	–	–	–	(100)	(12)	**(112)**	–	2	1	–	–	3
Exchange adjustments	(5)	6	–	(3)	3	**1**	65	11	–	5	1	82
31 December	**2,526**	**959**	**122**	**306**	**351**	**4,264**	2,378	796	186	376	231	3,967
Accumulated amortisation and impairment												
1 January	8	401	16	–	88	**513**	6	352	37	–	79	474
Amortisation	–	74	–	–	14	**88**	–	64	–	–	7	71
Impairments	–	–	3	–	3	**6**	2	4	15	–	1	22
Disposals	–	(66)	–	–	–	**(66)**	–	(29)	–	–	(1)	(30)
Surrenders	–	–	(15)	–	–	**(15)**	–	–	(36)	–	–	(36)
Exchange adjustments	–	(2)	–	–	1	**(1)**	–	10	–	–	2	12
31 December	**8**	**407**	**4**	**–**	**106**	**525**	8	401	16	–	88	513
NBV at 31 December	**2,518**	**552**	**118**	**306**	**245**	**3,739**	2,370	395	170	376	143	3,454

(i) Application software includes assets under construction with a cost of £334 million (2010: £221 million).
(ii) Other mainly includes customer relationships and brands.
(iii) Includes transfers to/from other balance sheet captions, such as intangible to tangible (note 15), and from assets held for sale.

Financial Statements

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. GOODWILL AND OTHER INTANGIBLE ASSETS CONTINUED

(b) Carrying amount of goodwill and intangible assets with indefinite useful lives allocated to CGUs

Goodwill acquired through business combinations and indefinite-lived intangible assets have been allocated for impairment testing purposes to individual or groups of CGUs each representing the lowest level within the Group at which the goodwill or indefinite-lived intangible asset is monitored for internal management purposes as follows:

CGU	Principal acquisitions to which goodwill and intangibles with indefinite useful lives relates	2011 Carrying amount of goodwill £m	2011 Carrying amount of indefinite-lived intangible asset (i) £m	2011 Total £m	2010 Carrying amount of goodwill £m	2010 Carrying amount of indefinite-lived intangible asset (i) £m	2010 Total £m
Downstream UK – Business energy supply and services	Enron Direct/Electricity Direct	**133**	**–**	**133**	133	–	133
Downstream UK – Residential services – Dyno-Rod	Dyno-Rod	**17**	**57**	**74**	17	57	74
Upstream UK – Upstream gas and oil	Newfield/Heimdal/Venture/ Trinidad and Tobago	**997**	**–**	**997**	999	–	999
North America – Residential energy supply	Direct Energy/ATCO/ CPL/WTU/FCP (ii)	**761**	**–**	**761**	643	–	643
North America – Business energy supply	Direct Energy/ATCO/ Strategic Energy	**212**	**–**	**212**	203	–	203
North America – Residential and business services	Enbridge Services/Residential Services Group/Clockwork (ii)	**289**	**9**	**298**	286	9	295
Other	Various (iii)	**109**	**1**	**110**	89	1	90
		2,518	**67**	**2,585**	2,370	67	2,437

(i) The indefinite-lived assets mainly relate to Mr Sparky and Benjamin Franklin brands, acquired as part of the Clockwork business combination and the Dyno-Rod brand.
(ii) Carrying amount of goodwill also contains goodwill from other Direct Energy acquisitions which are not significant compared with the aggregate carrying value of goodwill reported within the CGU.
(iii) Goodwill balances allocated across multiple CGUs. The amount of goodwill allocated to each CGU is not significant compared with the aggregate carrying value of goodwill reported within the Group. This balance also includes £33 million for gas storage.

(c) Key assumptions used

Value in use calculations have been used to determine recoverable amounts for all of the goodwill and indefinite-lived intangible asset balances, with the exception of the impairment test for the Upstream UK – Upstream gas and oil CGU, where fair value less costs to sell has been used as the basis for determining recoverable amount.

Value in use (VIU)

The VIU calculations use pre-tax cash flow projections based on the Group's Board-approved three-year business plans. The Group's business plans are based on past experience, and adjusted to reflect market trends, economic conditions, key risks, the implementation of strategic objectives and changes in commodity prices, as appropriate. Commodity prices used in the planning process are based in part on observable market data and in part on internal estimates. The extent to which the commodity prices used in the business plans are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active. Note 24 provides additional detail on the active period of each of the commodity markets in which the Group operates.

(i) Growth rates and discount rates

Cash flows beyond the three-year plan period have been extrapolated using long-term growth rates in the market where the CGU operates. Long-term growth rates are determined using a blend of publicly available historical data and long-term growth rate forecasts published by external analysts. Cash flows are discounted using a discount rate specific to each CGU. Discount rates reflect the current market assessments of the time value of money and are based on the estimated cost of capital of each CGU. Additionally, risks specific to the cash flows of the CGUs are reflected within cash flow forecasts. Each CGU's weighted average cost of capital is then adjusted to reflect the impact of tax in order to calculate an equivalent pre-tax discount rate. Long-term growth rates and pre-tax discount rates used in the VIU calculations for each of the Group's CGUs are provided in the table below:

	Downstream UK – Business energy supply and services	Downstream UK – Residential services	North America – Residential energy supply	North America – Business energy supply	North America – Residential and business services
Growth rate to perpetuity	**2.0%**	**2.0%**	**2.1%**	**2.1%**	**2.1%**
Pre-tax discount rate	**7.5%**	**7.5%**	**8.5%**	**8.5%**	**8.5%**

(ii) Inflation rates

Inflation rates used in the three-year business plan were based on a blend of a number of publicly available inflation forecasts for the UK, Canada and the US. Inflation rates used for the value in use calculations were as follows: UK: 2.0%, Canada: 2.1% and the US: 2.6%.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

14. GOODWILL AND OTHER INTANGIBLE ASSETS CONTINUED

(iii) Key operating assumptions by CGUs using VIU

The key operating assumptions across all CGUs are Gross Margin, Revenues and Operating Costs. Each of these assumptions is tailored to the specific CGU using management's knowledge of the environment.

CGU	Gross margin	Revenues	Operating costs
Downstream UK – Business energy supply and services	**Existing customers:** based on contractual terms. **New customers and renewals:** based on gross margins achieved in the period leading up to date of the business plan. Both adjusted for current market conditions and transportation cost inflation.	**Market share:** percentage immediately prior to business plan. **Adjusted for:** growth forecasts which are based on sales and marketing activity and recent customer acquisitions. Gas and electricity revenues based on forward market prices.	**Wages:** projected headcount in line with expected activity. Salary increases based on inflation expectations. **Credit losses:** historical assumptions regarding provisions have been updated to reflect the current UK environment.
Downstream UK – Residential services – Dyno-Rod	**Future sales:** based on percentages achieved in the period up to the approval of the business plan.	**Market share:** percentage immediately prior to business plan. **Adjusted for:** change in growth rates to reflect the current economic environment in the UK.	**Wages:** projected headcount in line with expected efficiency program.
North America – Residential energy supply	**Existing customers:** based on contractual terms. **New customers and renewals:** based on gross margins achieved in the period leading up to date of the business plan. **Adjusted for:** competitor data. Regulated gross margin percentages are based on regulatory applications submitted to the Alberta Utilities Commission in Canada.	**Market share:** average percentage immediately prior to business plan. **Adjusted for**: expectations of growth or decline to reflect regulatory or competitive differences. This includes a decline in Ontario revenues as a result of the challenging regulatory environment.	**Wages:** projected headcount in line with expected activity. Salary increases based on inflation expectations. **Future developments**: slight reduction in costs to reflect planned business processes efficiencies. **Customer acquisition**: based on experience of costs required to support acquisition, renewal and other servicing activities.
North America – Business energy supply	**Existing customers:** based on contractual terms. **New customers and renewals**: based on gross margins achieved historically.	**Market share:** based on historical growth trends and planned sales activities by individual market sector. **Adjusted for:** prices based on contractual terms for fixed price contracts and forward market curves for both gas and electricity in Canada and the US.	**Wages:** projected headcount in line with expected activity. Salary increases based on inflation expectations. **Future developments:** reduction in costs to reflect expected savings.
North America – Residential and business services	**New customers and renewals**: based on gross margins achieved in the period leading up to date of the business plan. **Adjusted for:** current economic conditions including lower Canadian consumer confidence and weak housing markets in Canada and the US.	**Market share:** based on historical growth trends by individual market sector. **Adjusted for:** new product offerings and continued penetration into new markets.	**Wages:** projected headcount in line with expected activity. Salary increases based on inflation expectations. **Credit losses:** historical assumptions regarding provisions have been updated to reflect the current North American environment.

Fair value less costs to sell (FVLCS)

FVLCS is used as the basis for determining the recoverable amount of goodwill allocated to Upstream UK – gas and oil. This methodology is deemed to be more appropriate as it is based on the post-tax cash flows arising from Upstream UK – gas and oil as a whole. This is consistent with the approach taken by management to evaluate the economic value of the underlying assets.

Discount rate and cash-flow assumptions, Upstream UK – Upstream gas and oil

FVLCS is determined by discounting the post-tax cash flows expected to be generated by the gas production and development assets, net of associated selling costs, taking into account those assumptions that market participants would use in estimating fair value. Post-tax cash flows are derived from projected production profiles of each field, taking into account forward prices for gas and liquids over the relevant period. Where forward market prices are not available, prices are determined based on internal model inputs. Note 24 provides additional detail on the active period of each of the commodity markets in which the Group operates. The date of cessation of production depends on the interaction of a number of variables, such as the recoverable quantities of hydrocarbons, production costs, the contractual duration of the licence area and the selling price of the gas and liquids produced. As each field has specific reservoir characteristics and economic circumstances, the post-tax cash flows for each field are computed using individual economic models. Post-tax cash flows used in the FVLCS calculation for the first three years are based on the Group's Board-approved three-year business plans and, thereafter, are based on long-term production and cash flow forecasts.

The future post-tax cash flows are discounted using a post-tax nominal discount rate of 8.5% to determine the FVLCS. The discount rate and inflation rate used in the FVLCS calculation are determined in the same manner as the rates used in the VIU calculations described above, with the exception of the adjustment required to determine an equivalent pre-tax discount rate.

(d) Summary of results

For all of the above CGUs the recoverable amounts exceeded their carrying values at the impairment test date. Reasonably possible changes in the key assumptions listed above would not cause the recoverable amounts of the goodwill balances to be equal to or less than the carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

15. PROPERTY, PLANT AND EQUIPMENT

(a) Carrying amounts	2011 Land and buildings (i) £m	2011 Plant, equipment and vehicles (ii) (iii) £m	2011 Power generation (ii) (iii) (iv) £m	2011 Gas storage and production (ii) (iii) (iv) £m	2011 Total £m	2010 Land and buildings (i) £m	2010 Plant, equipment and vehicles (ii) (iii) £m	2010 Power generation (ii) (iii) (iv) £m	2010 Gas storage and production (ii) (iii) (iv) £m	2010 Total £m
Cost										
1 January	26	369	2,229	9,852	**12,476**	23	389	2,144	8,649	11,205
Additions	–	85	98	529	**712**	2	27	87	401	517
Capitalised borrowing costs (note 8)	–	–	–	46	**46**	–	–	–	37	37
Acquisitions (note 30)	–	10	–	33	**43**	1	5	–	458	464
Prior year acquisition adjustments	–	–	–	–	**–**	–	–	–	(61)	(61)
Disposals	–	(44)	(12)	(2)	**(58)**	–	(67)	(14)	(13)	(94)
Transfers (v)	–	–	5	100	**105**	–	4	–	9	13
Decommissioning liability revisions (note 23)	–	–	(4)	200	**196**	–	–	1	261	262
Exchange adjustments	–	(3)	2	(50)	**(51)**	–	11	11	111	133
31 December	**26**	**417**	**2,318**	**10,708**	**13,469**	26	369	2,229	9,852	12,476
Accumulated depreciation and impairment										
1 January	12	178	743	5,145	**6,078**	11	203	545	4,387	5,146
Charge for the year	1	52	127	654	**834**	1	34	143	638	816
Impairments	–	–	205	16	**221**	–	–	64	93	157
Disposals	–	(39)	(12)	(2)	**(53)**	–	(66)	(11)	(11)	(88)
Exchange adjustments	–	(1)	1	(23)	**(23)**	–	7	2	38	47
31 December	**13**	**190**	**1,064**	**5,790**	**7,057**	12	178	743	5,145	6,078
NBV at 31 December	**13**	**227**	**1,254**	**4,918**	**6,412**	14	191	1,486	4,707	6,398

(i) The NBV of land and buildings comprises freeholds £8 million, long leaseholds £1 million and short leaseholds £4 million (2010: £8 million, £1 million and £5 million respectively).

(ii) Assets in the course of construction are included within the following categories: plant, equipment and vehicles £61 million, power generation £45 million, gas production £996 million and gas storage £156 million (2010: £75 million, £30 million, £781 million and £113 million respectively).

(iii) Assets held under finance leases included in totals above:

	2011 Plant, equipment and vehicles £m	2011 Power generation £m	2011 Gas storage and production £m	2011 Total £m	2010 Plant, equipment and vehicles £m	2010 Power generation £m	2010 Gas storage and production £m	2010 Total £m
Cost at 1 January	2	469	415	**886**	2	469	415	886
Additions	4	–	–	**4**	–	–	–	–
Cost at 31 December	**6**	**469**	**415**	**890**	2	469	415	886
Aggregate depreciation at 1 January	1	173	375	**549**	1	146	365	512
Charge for the year	2	28	5	**35**	–	27	10	37
Aggregate depreciation at 31 December	**3**	**201**	**380**	**584**	1	173	375	549
NBV at 31 December	**3**	**268**	**35**	**306**	1	296	40	337

(iv) The NBV of decommissioning assets included within power generation and gas storage and production assets was £907 million (2010: £804 million).

(v) Transfers to/from other balance sheet accounts, including transfers to inventory or transfers from intangible assets for exploration licences once a field is being developed.

The net book value of assets to which title was restricted at 31 December 2011 was £306 million (2010: £337 million), of which £268 million (2010: £296 million) relate to the Spalding power station finance lease asset. The carrying value of assets pledged as security for liabilities as at 31 December 2011 was £300 million (2010: £300 million).

(b) Impairments for tangible assets

During 2011, impairment charges were recorded as follows:

Upstream UK – Power: £205 million charge within exceptional items (note 7), for the Killingholme, Kings Lynn, Peterborough and Barry power stations, as a result of low spark spreads. The recoverable amount has been determined using value in use calculations, with future cash flows discounted using a pre-tax discount rate of 7.5% (2010: 7.6%). Cash inflows are based on forecast production profiles and forward market prices for power for the active period of the market and internal models thereafter. Cash outflows are based on planned operating and capital expenditure.

Upstream UK – Gas: £13 million charge resulting from impairment of an upstream field.

Storage UK: £3 million charge resulting from a write-off of capitalised costs in relation to a potential storage project.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. INTERESTS IN JOINT VENTURES AND ASSOCIATES

(a) Interest in joint ventures and associates	Investments in joint ventures and associates £m (2011)	Shareholder loans £m (2011)	**2011 Total £m**	Investments in joint ventures and associates £m (2010)	Shareholder loans £m (2010)	2010 Total £m
1 January	2,343	164	**2,507**	2,356	66	2,422
Additions	113	115	**228**	66	124	190
Decrease in shareholder loans	–	(10)	**(10)**	–	(26)	(26)
Share of profits/(losses) for the year	67	–	**67**	(7)	–	(7)
Share of reserve movements	(25)	–	**(25)**	15	–	15
Dividends	(147)	–	**(147)**	(83)	–	(83)
Impairments	–	–	**–**	(4)	–	(4)
31 December	**2,351**	**269**	**2,620**	2,343	164	2,507

(b) Share of joint ventures' and associates' assets and liabilities

The Group's share of joint ventures' and associates' gross assets and gross liabilities at 31 December 2011 principally comprised of its interests in the following entities (all reported in Upstream UK – Power segment):

- Wind farms – Braes of Doune Wind Farm (Scotland) Limited, Barrow Offshore Wind Limited, GLID Wind Farms TopCo Limited[(i)] and Lincs Wind Farm Limited
- Nuclear – Lake Acquisitions Limited (British Energy) and NNB Holding Company Limited

	Joint ventures Wind farms £m	Associates Nuclear £m	Other (ii) £m	**2011 Total £m**	2010 Total £m
Share of non-current assets	590	3,744	50	**4,384**	4,169
Share of current assets	52	622	2	**676**	698
	642	4,366	52	**5,060**	4,867
Share of current liabilities	(112)	(203)	–	**(315)**	(270)
Share of non-current liabilities	(422)	(1,950)	(13)	**(2,385)**	(2,250)
	(534)	(2,153)	(13)	**(2,700)**	(2,520)
Restricted interest on shareholder loan [(iii)]	(9)	–	–	**(9)**	(4)
Share of net assets of joint ventures and associates [(iv)]	99	2,213	39	**2,351**	2,343
Shareholder loans	252	–	17	**269**	164
Interests in joint ventures and associates	**351**	**2,213**	**56**	**2,620**	2,507
Net (debt)/cash included in share of net assets	(376)	105	(12)	**(283)**	(205)

(i) As part of a finance arrangement entered into by GLID Wind Farms TopCo Limited, the Group's shares in GLID Wind Farms TopCo Limited are pledged to a third party. The pledge will only come into force should GLID Wind Farms TopCo Limited default on any of its obligations under the finance arrangement.
(ii) Other includes joint ventures of North Sea Infrastructure Partners Limited, Bacton Storage Company Limited and Secure Electrans Limited.
(iii) The Group restricts the amount of interest receivable on the shareholder loan from Lincs Wind Farm Limited to 50% of the interest capitalised by the joint venture.
(iv) Includes £158 million of assets and £21 million of liabilities of NNB Holding Company Limited (2010: £106 million of assets and £21 million of liabilities).

(c) Share of profits/(losses) in joint ventures and associates

	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	**2011 Total £m**	2010 Total £m
Income	62	532	–	**594**	468
Expenses excluding certain re-measurements [(i)]	(26)	(417)	(1)	**(444)**	(422)
Certain re-measurements	–	(33)	–	**(33)**	(31)
	36	82	(1)	**117**	15
Interest paid	(17)	(37)	(4)	**(58)**	(55)
Taxation excluding certain re-measurements [(i)]	(4)	7	(2)	**1**	16
Taxation on certain re-measurements	–	7	–	**7**	17
Share of post-taxation results of joint ventures and associates	15	59	(7)	**67**	(7)

(i) Includes £86 million (2010: £97 million) relating to depreciation of fair value uplifts to PP&E on acquiring the British Energy investments. The associated tax impact is £45 million credit (2010: £39 million).

British Energy

During November 2009 the Group acquired a 20% interest in British Energy for £2,255 million and NNB Holding Company Limited for £32 million. The Group's share of profit arising from its investment in British Energy for the year to 31 December 2011 as set out in the table above includes the effect of unwinding the fair value adjustments. As explained in note 2 the depreciation, net of taxation, arising

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

16. INTERESTS IN JOINT VENTURES AND ASSOCIATES CONTINUED

on fair value uplifts attributed to the nuclear power stations is reversed in arriving at adjusted profit for the period as shown in the reconciliation table below and as set out in notes 4 and 11.

(d) Reconciliation of share of profits/(losses) in joint ventures and associates to share of adjusted profits/(losses) in joint ventures and associates

	Joint ventures Wind farms £m	Associates Nuclear £m	Other £m	2011 Total £m	2010 Total £m
Share of post-taxation results of joint ventures and associates	15	59	(7)	**67**	(7)
Certain re-measurements (net of taxation)	–	26	–	**26**	14
Depreciation – British Energy (net of taxation) (i)	–	41	–	**41**	58
Interest paid	17	37	4	**58**	55
Taxation (excluding certain re-measurements and British Energy depreciation)	4	38	2	**44**	23
Share of adjusted results of joint ventures and associates	36	201	(1)	**236**	143

(i) Relates to depreciation of fair value uplifts to PP&E on acquiring the British Energy investments.

17. INVENTORIES

	2011 £m	2010 £m
Gas in storage and transportation	**243**	120
Other raw materials and consumables	**106**	106
Finished goods and goods for resale	**93**	118
	442	344

The Group consumed £1,229 million of inventories (2010: £1,117 million) during the year. £21 million of inventory write downs in the year relate to power generation spare parts, see note 7.

18. TRADE AND OTHER RECEIVABLES

	2011 Current £m	2011 Non-current £m	2010 Current £m	2010 Non-current £m
Financial assets:				
Trade receivables	**2,066**	**3**	1,995	8
Accrued energy income	**1,709**	**–**	1,813	–
Other accrued income	**193**	**–**	202	–
Cash collateral pledged	**223**	**–**	173	–
Other receivables	**351**	**8**	307	12
	4,542	**11**	4,490	20
Less: Provision for credit losses	**(599)**	**–**	(641)	–
	3,943	**11**	3,849	20
Non-financial assets: Prepayments and other receivables	**269**	**63**	338	77
	4,212	**74**	4,187	97

Trade and other receivables include financial assets representing the contractual right to receive cash or other financial assets from residential customers, business customers and treasury, trading and energy procurement counterparties as follows:

	2011 Current £m	2011 Non-current £m	2010 Current £m	2010 Non-current £m
Financial assets by class:				
Residential customers	**2,042**	**4**	2,001	9
Business customers	**1,562**	**7**	1,643	11
Treasury, trading and energy procurement counterparties	**938**	**–**	846	–
	4,542	**11**	4,490	20
Less: Provision for credit losses	**(599)**	**–**	(641)	–
	3,943	**11**	3,849	20

Receivables from residential and business customers are generally considered to be fully performing until such time as the payment that is due remains outstanding past the contractual due date. Contractual due dates range from being due upon receipt to due in 30 days.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

18. TRADE AND OTHER RECEIVABLES CONTINUED

At 31 December 2011, there were £24 million (2010: £25 million) of receivables, net of provisions for credit losses, from residential customers and £22 million (2010: £22 million) from treasury, trading and energy procurement counterparties that were individually impaired. Receivables from residential customers are generally reviewed for impairment on an individual basis once a customer discontinues their relationship with the Group.

The provision for credit losses is based on an incurred loss model and is determined by application of expected default and loss factors, determined by historical loss experience and current sampling to the various balances receivable from residential and business customers on a portfolio basis, in addition to provisions taken against individual accounts. Balances are written off when recoverability is assessed as being remote. Movements in the provision for credit losses by class are as follows:

				2011				2010
	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	**Total £m**	Residential customers £m	Business customers £m	Treasury, trading and energy procurement counterparties £m	Total £m
1 January	(375)	(253)	(13)	**(641)**	(362)	(180)	(12)	(554)
Impairment of trade receivables	(120)	(102)	–	**(222)**	(142)	(124)	(1)	(267)
Receivables written off	146	129	–	**275**	132	53	1	186
Acquisitions	(11)	–	–	**(11)**	(1)	(1)	–	(2)
Exchange adjustments	–	–	–	**–**	(2)	(1)	(1)	(4)
31 December	**(360)**	**(226)**	**(13)**	**(599)**	(375)	(253)	(13)	(641)

The impairment charge in trade receivables is stated net of credits for the release of specific provisions made in previous years, which are no longer required. These relate primarily to residential customers in the UK. During the year the Group took possession of £32 million of customer deposits when customers defaulted on their accounts receivable balance. At 31 December 2011 the Group held £50 million (2010: £56 million) of customer deposits for the purposes of mitigating the credit risk associated with receivables from residential and business customers.

19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are held for the following purposes and accounted for accordingly:

Purpose	Accounting treatment
Proprietary energy trading and treasury management	Carried at fair value with changes in fair value recognised in the Group's results for the year before exceptional items and certain re-measurements (i)
Energy procurement	Carried at fair value, with changes in the fair value reflected in certain re-measurements (ii)

(i) With the exception of certain energy derivatives related to cross-border transportation and capacity contracts (note S2)
(ii) Energy contracts designated at fair value through profit and loss include certain energy contracts that the Group has, at its option, designated at fair value through profit and loss under IAS 39 because the energy contract contains one or more embedded derivatives that significantly modify the cash flows under the contract (note S2).

In cases where a derivative qualifies for hedge accounting, derivatives are classified as fair value hedges, cash flow hedges or hedges of a net investment in a foreign operation. Notes 20 and S2 provide further detail on the Group's hedge accounting.

The carrying values of derivative financial instruments by product type for accounting purposes are as follows:

		2011		2010
	Assets £m	**Liabilities £m**	Assets £m	Liabilities £m
Derivative financial instruments – held for trading under IAS 39:				
Energy derivatives – for procurement	**332**	**(1,390)**	538	(1,022)
Energy derivatives – for proprietary trading	**61**	**(14)**	47	(31)
Interest rate derivatives	**22**	**(79)**	3	(16)
Foreign exchange derivatives	**23**	**(37)**	53	(100)
Energy derivative contracts designated at fair value through profit and loss	**7**	**(46)**	1	(143)
Derivative financial instruments in hedge accounting relationships:				
Energy derivatives	**–**	**(65)**	25	(86)
Interest rate derivatives	**157**	**(7)**	105	–
Foreign exchange derivatives	**3**	**(7)**	18	(5)
Total derivative financial instruments	**605**	**(1,645)**	790	(1,403)
Included within:				
Derivative financial instruments – current	**315**	**(1,140)**	449	(755)
Derivative financial instruments – non-current	**290**	**(505)**	341	(648)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

19. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

The contracts included within energy derivatives are subject to a wide range of detailed specific terms but comprise the following general components, analysed on a net carrying value basis:

	2011 £m	2010 £m
Short-term forward market purchases and sales of gas and electricity:		
UK and Europe	**(458)**	24
North America	**(406)**	(451)
Structured gas purchase contracts	**(91)**	89
Structured gas sales contracts	**(120)**	(176)
Other	**(40)**	(157)
Net total	**(1,115)**	(671)

Net (losses)/gains on derivative financial instruments due to re-measurement	2011 Income Statement £m	2011 Equity £m	2010 Income Statement £m	2010 Equity £m
Financial assets and liabilities measured at fair value:				
Derivative financial instruments – held for proprietary energy trading	**30**	**–**	(51)	–
Derivative financial instruments – held for trading under IAS 39	**(576)**	**–**	1,099	–
Energy contracts designated at fair value through profit and loss	**104**	**–**	36	–
Derivative financial instruments in hedge accounting relationships	**52**	**(56)**	39	260
	(390)	**(56)**	1,123	260

20. HEDGE ACCOUNTING

For the purposes of hedge accounting, hedges are classified as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations. Note S2 details the Group's accounting policies in relation to derivatives qualifying for hedge accounting under IAS 39. The fair values of derivative and primary financial instruments in hedge accounting relationships at 31 December were as follows:

	2011 Assets £m	2011 Liabilities £m	2010 Assets £m	2010 Liabilities £m
Fair value hedges	**153**	**–**	105	–
Cash flow hedges	**7**	**(79)**	43	(91)

Fair value hedges

The Group's fair value hedges consist of interest rate swaps, cross-currency interest rate swaps and forward rate agreements used to protect against changes in the fair value of fixed-rate, long-term debt due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the hedging instrument and in the fair value of the hedged item in relation to the risk being hedged are recognised as income within net interest expense.

Gains or losses arising on fair value hedges at 31 December were as follows:

Gains/(losses)	2011 £m	2010 £m
On hedging instruments	**49**	41
On hedged items attributable to the hedged risk	**(60)**	(41)
	(11)	–

Cash flow hedges

The Group's cash flow hedges consist primarily of:

- physical and financial gas and power purchase contracts used to protect against the variability in future cash flows associated with highly probable forecast purchases of gas and power due to movements in market commodity prices;
- forward foreign exchange contracts used to protect against the variability of functional currency denominated cash flows associated with non-functional currency denominated highly probable forecast transactions; and
- interest rate swaps, cross-currency interest rate swaps and forward rate agreements used to protect against the variability in cash flows associated with floating-rate borrowings due to movements in market interest rates.

Gains and losses are initially recognised in the cash flow hedging reserve in other comprehensive income and are transferred to the Income Statement when the forecast cash flows affect the Income Statement. Note 27 details movements in the cash flow hedging reserve. The ineffective portion of gains and losses on cash flow hedging are recognised immediately in the Income Statement. During 2011, the Group recognised a £3 million gain (2010: £2 million loss) due to cash flow hedge ineffectiveness.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

20. HEDGE ACCOUNTING CONTINUED

Net investment hedges

Historically the Group engaged in net investment hedging (NIH) whereby it would obtain foreign currency debt issued in the same currency as the net investment. In 2009 the Group ceased NIH however the opening balance of the foreign currency translation reserve includes exchange translation differences on borrowings and derivatives classified as NIH under the requirements of IAS 39. These balances will be recycled to the Group Income Statement on disposal of the foreign operation.

21. TRADE AND OTHER PAYABLES

	2011		2010	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Financial liabilities:				
Trade payables	**988**	**–**	1,063	–
Deferred income	**449**	**–**	293	–
Capital creditors	**108**	**–**	169	–
Other payables	**388**	**2**	368	–
Accruals:				
Commodity costs	**719**	**–**	846	–
Transportation, distribution and metering costs	**177**	**–**	163	–
Operating and other accruals	**778**	**–**	676	–
	1,674	**–**	1,685	–
	3,607	**2**	3,578	–
Non-financial liabilities:				
Other payables and accruals	**359**	**11**	329	29
Deferred income	**128**	**20**	152	27
	4,094	**33**	4,059	56

22. DEFERRED TAX LIABILITIES AND ASSETS

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods:

	Accelerated tax depreciation (corporation tax) £m	Other timing differences including losses carried forward £m	Marked to market £m	Net deferred petroleum revenue tax (i) £m	Retirement benefit obligation and other provisions £m	**Total £m**
1 January 2010	(1,829)	417	611	(2)	158	(645)
Change to tax rates	8	4	(1)	–	3	14
Credit/(charge) to income	179	(184)	(331)	(1)	(92)	(429)
Credit/(charge) to equity	–	33	(79)	–	(2)	(48)
Acquisition of subsidiary	(55)	–	–	–	–	(55)
Adjustments to fair value of prior year acquisitions	16	4	–	2	–	22
Exchange and other adjustments	(12)	2	15	7	–	12
31 December 2010	(1,693)	276	215	6	67	**(1,129)**
Change to tax rates	(227)	60	1	–	(5)	**(171)**
(Charge)/credit to income	(103)	156	113	17	(84)	**99**
(Charge)/credit to equity	–	(10)	23	–	(59)	**(46)**
Acquisition of subsidiaries	(3)	–	–	–	–	**(3)**
Exchange and other adjustments	(1)	(23)	3	–	–	**(21)**
31 December 2011	**(2,027)**	**459**	**355**	**23**	**(81)**	**(1,271)**

(i) Petroleum revenue taxation is deductible for corporation tax purposes, hence the deferred petroleum revenue tax amounts include the effect of deferred corporation tax.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

22. DEFERRED TAX LIABILITIES AND ASSETS CONTINUED

Certain deferred tax assets and liabilities have been offset where there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following is an analysis of the gross deferred tax balances and associated offsetting balances for financial reporting purposes:

	Assets		Liabilities	
	2011 £m	2010 £m	**2011 £m**	2010 £m
Gross deferred tax balances crystallising within one year	**187**	100	**(354)**	(325)
Gross deferred tax balances crystallising after one year	**993**	973	**(2,097)**	(1,877)
	1,180	1,073	**(2,451)**	(2,202)
Offsetting deferred tax balances	**(945)**	(835)	**945**	835
Net deferred tax balances (after offsetting for financial reporting purposes)	**235**	238	**(1,506)**	(1,367)

At the balance sheet date the Group had certain deductible temporary differences of £454 million (2010: £191 million) available for utilisation against future profits. No deferred tax asset has been recognised in respect of these temporary differences, due to the unpredictability of future profit streams. A significant proportion of these assets may be carried forward indefinitely. At the balance sheet date, no temporary differences existed in respect of the Group's overseas investments (2010: £87 million). The deferred tax liability arising on these temporary differences is estimated to be £nil (2010: £3 million).

23. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Current provisions for other liabilities and charges	1 January 2011 £m	Acquisitions and disposals £m	Charged in the year £m	Unused and reversed in the year £m	Transferred from non-current £m	Utilised £m	**31 December 2011 £m**
Restructuring costs [(i)] [(ii)]	15	–	162	(6)	3	(27)	**147**
Decommissioning costs [(iii)]	2	–	1	(3)	52	(27)	**25**
Purchase contract loss provision [(iv)]	124	–	50	(5)	29	(113)	**85**
Other [(v)]	54	–	63	(6)	5	(65)	**51**
	195	**–**	**276**	**(20)**	**89**	**(232)**	**308**

Non-current provisions for other liabilities and charges	1 January 2011 £m	Acquisitions and disposals £m	Charged in the year £m	Unused and reversed in the year £m	Revisions and additions £m	Transferred to current £m	Exchange adjustments £m	**31 December 2011 £m**
Restructuring costs [(i)] [(ii)]	19	–	1	–	–	(3)	–	**17**
Decommissioning costs [(iii)]	1,401	6	48	–	196	(52)	(8)	**1,591**
Purchase contract loss provision [(iv)]	71	–	177	–	–	(29)	(2)	**217**
Other [(v)]	60	–	24	–	–	(5)	(1)	**78**
	1,551	**6**	**250**	**–**	**196**	**(89)**	**(11)**	**1,903**

Included within the above liabilities are the following financial liabilities:

	2011		2010	
	Current £m	**Non-current £m**	Current £m	Non-current £m
Financial liabilities:				
Restructuring costs [(i)] [(ii)]	**144**	**15**	34	17
Other [(v)]	**74**	**151**	34	45
	218	**166**	68	62

(i) The brought forward restructuring provisions relate to significant restructuring programmes undertaken to achieve cost reductions across the Group. Included within the closing provision are costs related to surplus properties of £24 million (2010: £28 million) estimated with reference to the expected cost to be incurred to the point of lease termination, including costs for dilapidations and sub-letting. The provisions are expected to be utilised by 2022.

(ii) The amounts charged in the year mainly relate to the exceptional restructuring costs (see note 7). The provisions are expected to be utilised by 2013.

(iii) Provision has been made for the estimated net present cost of decommissioning gas production and storage facilities at the end of their useful lives. The estimate has been based on 2P reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments is dependent on the lives of the facilities but is expected to occur by 2055, with the majority of the provision being utilised between 2020 and 2030. The charge to income includes £40 million of notional interest (2010: £25 million).

(iv) The purchase contract loss provision relates to a number of European gas transportation contracts, the Rijnmond tolling contract and North American wind farm power purchase agreements (see note 7). The majority of the provisions are expected to be utilised by 2018.

(v) Other provisions include UK contract migration costs, National Insurance payable in respect of Long Term Incentive Scheme liabilities, costs for certain long term take-or-pay contracts renegotiated by the Group in prior years and outstanding litigation for a number of items (none of which are individually significant). The provisions are expected to be utilised by 2016.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. The Group has documented internal policies for determining fair value, including methodologies used to establish valuation adjustments required for credit risk.

Financial liabilities	Notes	2011 Carrying value £m	2011 Fair value £m	2010 Carrying value £m	2010 Fair value £m
Financial liabilities measured at amortised cost:					
Trade and other payables	21	**(3,609)**	**(3,609)**	(3,578)	(3,578)
Bank overdrafts, loans and other borrowings:					
Bank overdrafts and loans	12	**(267)**	**(274)**	(277)	(241)
Bonds	12	**(3,460)**	**(3,891)**	(3,407)	(3,693)
Commercial paper	12	**(114)**	**(114)**	–	–
Obligations under finance leases	12	**(330)**	**(328)**	(352)	(364)
Provisions	23	**(384)**	**(384)**	(130)	(130)
		(8,164)	**(8,600)**	(7,744)	(8,006)
Financial liabilities at fair value: Derivative financial instruments	19	**(1,645)**	**(1,645)**	(1,403)	(1,403)

Financial assets

The carrying values of the Group's financial assets (disclosed in notes 12, 18 and 19) are equal to the fair values of those assets.

Bank overdrafts, loans and other borrowings

The fair values of bonds are based on quoted market prices. The fair values of bank loans have been determined by discounting cash flows with reference to relevant market rates of interest. The fair values of overdrafts and commercial paper are assumed to equal their book values due to the short-term nature of these amounts. The fair values of obligations under finance leases have been determined by discounting contractual cash flows with reference to the Group's cost of borrowing.

Other financial instruments

Due to their nature and/or short-term maturity, the fair values of trade and other receivables, cash and cash equivalents, trade and other payables and provisions are estimated to approximate their carrying values.

Derivative financial instruments and energy contracts designated at fair value through profit and loss

The fair values of foreign exchange and interest rate derivatives are determined by reference to closing market rates at the balance sheet date. The fair values of energy derivatives are determined using valuation techniques based in part on observable market data and in part on internal estimates not currently supported by observable market data. The extent to which fair values of energy derivatives are based on observable market data is determined by the extent to which the market for the underlying commodity is judged to be active.

The Group has judged each of the markets in which it operates as active for the purposes of accounting as follows:

Active period of markets	Gas	Power	Coal	Emissions	Oil
UK (years)	**2**	**2**	**3**	**2**	**3**
North America (years)	**5**	**Up to 5**	**n/a**	**Up to 5**	**n/a**

The fair values of energy contracts within the scope of IAS 39 that settle inside the active period of the market are based on quoted market prices and expected volumes, discounted at an average rate of 1% per annum (2010: 1%). The fair values of derivative financial instruments in North America and Europe are based primarily on quoted market prices. In the UK, however, certain energy contracts extend beyond the active period of the market. The fair values of energy contracts that extend beyond the active period of the market are determined by reference in part to published price quotations in active markets and in part by using valuation techniques based on commodity prices derived using assumptions that are based on internal market expectations and expected volumes, discounted using an average discount rate of 2% per annum for 2011.

Where the fair value at initial recognition for such contracts differs from the transaction price, a day-one gain or loss will arise. Such gains and losses are deferred and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time as observable market data becomes available (see note S2 for further detail). The amount that has yet to be recognised in the Income Statement relating to the difference between the fair value at initial recognition (the transaction price) and the amount that would have arisen had valuation techniques used for subsequent measurement been applied at initial recognition, less subsequent releases, is as follows:

Net deferred (gains)/losses	2011 £m	2010 £m
1 January	**(109)**	(86)
Net losses/(gains) deferred on new transactions	**7**	(2)
Recognised in the Income Statement during the year	**43**	(21)
31 December	**(59)**	(109)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24. FAIR VALUE OF FINANCIAL INSTRUMENTS CONTINUED

Fair value hierarchy

Financial assets and financial liabilities measured at fair value are classified into one of three categories:

	Level 1 £m	Level 2 £m	Level 3 £m	2011 Total £m	Level 1 £m	Level 2 £m	Level 3 £m	2010 Total £m
Financial assets								
Derivative financial instruments:								
Energy derivatives	40	318	42	**400**	–	492	119	611
Interest rate derivatives	–	179	–	**179**	–	108	–	108
Foreign exchange derivatives	–	26	–	**26**	–	71	–	71
Treasury gilts designated at fair value through profit and loss	128	–	–	**128**	164	–	–	164
Debt instruments	69	–	3	**72**	64	–	1	65
Equity instruments	11	–	7	**18**	17	–	11	28
Total financial assets	**248**	**523**	**52**	**823**	245	671	131	1,047
Financial liabilities								
Derivative financial instruments:								
Energy derivatives	(169)	(1,140)	(206)	**(1,515)**	(113)	(849)	(320)	(1,282)
Interest rate derivatives	–	(86)	–	**(86)**	–	(16)	–	(16)
Foreign exchange derivatives	–	(44)	–	**(44)**	–	(105)	–	(105)
Total financial liabilities	**(169)**	**(1,270)**	**(206)**	**(1,645)**	(113)	(970)	(320)	(1,403)

There were no significant transfers out of Level 1 into Level 2 and out of Level 2 into Level 1 during 2011 and 2010.

The reconciliation of the Level 3 fair value measurements during the year is as follows:

	2011 Financial asset £m	2011 Financial liability £m	2010 Financial asset £m	2010 Financial liability £m
Level 3 financial instruments				
1 January	**131**	**(320)**	75	(490)
Total realised and unrealised (losses)/gains:				
Recognised in income statement	**(45)**	**68**	60	(72)
Gains recognised in other comprehensive income	**–**	**(3)**	2	–
Purchases, sales, issuances and settlements (net)	**–**	**–**	38	77
Transfers from Level 3 to Level 2	**(34)**	**49**	(44)	165
31 December	**52**	**(206)**	131	(320)
Total (losses)/gains for the year for Level 3 financial instruments held at the end of the reporting period (i)	**(21)**	**65**	74	(86)

(i) £21 million losses (2010: £72 million gains) for the year for Level 3 financial assets held at the end of the reporting year were recognised within certain re-measurements and no gains or losses (2010: £2 million) were recognised in other comprehensive income. £68 million gains (2010: £86 million losses) for the year for Level 3 financial liabilities held at the end of the reporting year were recognised within certain re-measurements and £3 million losses (2010: £nil) were recognised in other comprehensive income.

The impacts of reasonably possible changes to assumed gas, power, coal, emissions and oil prices on the net fair value of the Group's fair value measurements categorised as Level 3 are as follows:

Energy price	2011 Reasonably possible change in variable	2010 Reasonably possible change in variable
UK gas (p/therm)	**+/–9**	+/–11
UK power (£/MWh)	**+/–6**	+/–5
UK coal (US$/tonne)	**+/–13**	+/–21
UK emissions (€/tonne)	**+/–2**	+/–2
UK oil (US$/bbl)	**+/–20**	+/–18

Increase/(decrease) in fair value	2011 £m	2010 £m
UK energy prices – increase/(decrease)	**52/(38)**	9/12

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

24. FAIR VALUE OF FINANCIAL INSTRUMENTS CONTINUED

The impacts disclosed above result from changing the assumptions used for fair valuing energy contracts in relation to gas, power, emissions, coal and oil prices to reasonably possible alternative assumptions at the balance sheet date. The fair value impacts only concern those contracts entered into which are within the scope of IAS 39 and are marked-to-market based on valuation models using assumptions that are not currently observable in an active market. The sensitivity analysis provided is hypothetical only and should be used with caution, as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is constantly changing as the Group's portfolio of energy contracts changes. Changes in fair values based on a variation in a market variable cannot be extrapolated as the relationship between the change in market variable and the change in fair value will not always be linear. This can be seen in the results from the above 2010 sensitivity analysis. Due to the interaction of various contract price floors and ceilings and optionality in purchase/sales volumes, both scenarios lead to an increase in the total fair value of the Level 3 assets and liabilities.

25. FINANCIAL RISK MANAGEMENT

The Group's normal operating, investing and financing activities expose it to a variety of financial risks. The processes for managing these risks are set out in note S3. The information in this note sets out financial metrics related to these risks.

Transactional and translational currency risks

It is the Group's policy to hedge material transactional exposures using forward contracts to fix the functional currency value of non-functional currency cash flows, except where there is an economic hedge inherent in the transaction. At 31 December 2011, there were no material unhedged non-functional currency monetary assets or liabilities, firm commitments or probable forecast transactions (2010: £nil), other than transactions which have an inherent economic hedge and foreign currency borrowings used to hedge translational exposures.

The Group manages translational currency risk taking into consideration the cash impact of any hedging activity as well as the risk to the net asset numbers in the Group's Financial Statements. The translation hedging programme including the potential cash impact is monitored by the GFRMC.

The impacts of reasonably possible changes in foreign currency rates relative to pounds sterling on profit and equity, both after taxation, based on the assumptions set out in note S3 are as follows:

			2011			2010
Foreign exchange rates and incremental profit/(loss)	**Reasonably possible change in variable %**	**Impact on profit £m**	**Impact on equity £m**	Reasonably possible change in variable %	Impact on profit £m	Impact on equity £m
US dollar	**+/–10**	**14/(23)**	**(17)/20**	+/–10	(75)/94	20/(18)
Canadian dollar	**+/–10**	**(18)/20**	**(54)/66**	+/–10	(20)/20	52/(43)
Euro	**+/–10**	**33/(20)**	**19/(23)**	+/–10	(28)/33	(5)/7

Interest rate risk

The impacts of reasonably possible changes in interest rates on profit and equity, both after taxation, based on the assumptions set out in note S3 are as follows:

			2011			2010
Interest rates and incremental profit/(loss)	**Reasonably possible change in variable %**	**Impact on profit £m**	**Impact on equity £m**	Reasonably possible change in variable %	Impact on profit £m	Impact on equity £m
UK interest rates	**+/–1.0**	**6/(4)**	**27/(33)**	+/–1.0	14/(12)	14/(18)
US interest rates	**+/–1.0**	**2/(4)**	**–/–**	+/–1.0	2/(6)	–/–
Euro interest rates	**+/–1.0**	**(4)/5**	**–/–**	+/–1.0	(7)/5	–/–

Commodity price risk

The impacts of reasonably possible changes in commodity prices on profit and equity, both after taxation, based on the assumptions set out in note S3 are as follows:

		2011		2010
Energy prices	**Base price (i)**	**Reasonably possible change in variable**	Base price (i)	Reasonably possible change in variable
UK gas (p/therm)	**59**	**+/– 9**	59	+/–11
UK power (£/MWh)	**47**	**+/– 6**	51	+/–5
UK coal (US$/tonne)	**117**	**+/– 13**	121	+/–21
UK emissions (€/tonne)	**8**	**+/– 2**	14	+/–2
UK oil (US$/bbl)	**101**	**+/– 20**	95	+/–18
North American gas (USc/therm)	**42**	**+/– 6**	52	+/–9
North American power (US$/MWh)	**43**	**+/– 4**	48	+/–4

(i) The base price represents the average forward market price over the duration of the active market curve used in the sensitivity analysis provided.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. FINANCIAL RISK MANAGEMENT CONTINUED

Incremental profit/(loss)	2011 Impact on profit £m	2011 Impact on equity £m	2010 Impact on profit £m	2010 Impact on equity £m
UK energy prices (combined) – increase/(decrease)	**245/(235)**	**24/(24)**	98/(79)	32/(32)
North American energy prices (combined) – increase/(decrease)	**56/(56)**	**–/–**	25/(25)	7/(7)

Liquidity risk

The Group has a number of treasury and risk policies to monitor and manage liquidity risk. Cash forecasts identifying the Group's liquidity requirements are produced regularly and are stress-tested for different scenarios, including, but not limited to, reasonably possible increases or decreases in commodity prices and the potential cash implications of a credit rating downgrade. The Group seeks to ensure that sufficient financial headroom exists for at least a 12-month period to safeguard the Group's ability to continue as a going concern. It is the Group's policy to maintain committed facilities and/or available surplus cash resources of at least £1,200 million, raise at least 75% of its net debt (excluding non-recourse debt) in the long-term debt market and to maintain an average term to maturity in the recourse long-term debt portfolio greater than five years.

At 31 December 2011, the Group had undrawn committed credit facilities of £3,254 million (2010: £2,873 million) and £518 million (2010: £467 million) of cash and cash equivalents. These facilities include a £500 million facility to aid the purchase of the Statoil gas and oil assets described in note 37. 115% (2010: 121%) of the Group's net debt has been raised in the long-term debt market and the average term to maturity of the long-term debt portfolio was 9.6 years (2010: 10.5 years).

The Group's liquidity is impacted by the cash pledged under margin/collateral agreements; the table below summarises the movements in margin cash:

	2011 £m	2010 £m
Cash pledged as collateral at 1 January	**(173)**	(631)
Net cash (outflow)/inflow	**(26)**	466
Transferred from discontinued operations	**(2)**	–
Acquisition of businesses	**(17)**	–
Foreign exchange	**(1)**	(8)
Cash pledged as collateral at 31 December (i)	**(219)**	(173)

(i) Within discontinued operations there was also a net £8 million cash inflow of collateral in the period (2010: £25 million outflow). The net cash collateral pledged of £219 million is included in trade payables, £4 million, and trade receivables, £223 million (2010: £173 million).

The relatively high level of undrawn committed bank borrowing facilities and available cash resources has enabled the Directors to conclude that the Group has sufficient headroom to continue as a going concern. The statement of going concern is included in the Directors' Report – Governance, on page 51.

Maturity profiles

Maturities of derivative financial instruments, provisions, finance leases and trade and other payables are provided in the following tables (all amounts are undiscounted):

Due for payment	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
2011						
Energy and interest derivatives in a loss position that will be settled on a net basis	**(326)**	**(85)**	**(17)**	**(3)**	**(2)**	**(24)**
Gross energy procurement contracts carried at fair value	**(16,174)**	**(7,033)**	**(4,396)**	**(3,552)**	**(2,054)**	**(1,077)**
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	**(2,920)**	**(699)**	**(36)**	**(19)**	**(2)**	**(319)**
Inflow	**2,921**	**656**	**39**	**17**	**–**	**263**
Financial liabilities within provisions	**(218)**	**(40)**	**(30)**	**(22)**	**(45)**	**(29)**
Finance leases: (i)						
Minimum lease payments	**(46)**	**(46)**	**(47)**	**(48)**	**(48)**	**(187)**
Capital elements of leases	**(28)**	**(33)**	**(32)**	**(35)**	**(38)**	**(164)**

(i) Note the difference between the total minimum lease payments and the total capital elements of leases is due to future finance charges.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

25. FINANCIAL RISK MANAGEMENT CONTINUED

Due for payment	<1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	>5 years £m
2010						
Energy and interest derivatives in a loss position that will be settled on a net basis	(418)	(33)	(112)	2	1	(14)
Gross energy procurement contracts carried at fair value	(12,814)	(5,839)	(3,867)	(2,919)	(2,574)	(2,184)
Foreign exchange derivatives that will be settled on a gross basis:						
Outflow	(2,350)	(548)	(595)	(11)	–	(244)
Inflow	2,335	556	565	15	–	158
Financial liabilities within provisions	(68)	(16)	(5)	(6)	(28)	(7)
Finance leases: (i)						
Minimum lease payments	(45)	(46)	(46)	(47)	(48)	(235)
Capital elements of leases	(25)	(28)	(30)	(32)	(35)	(202)

(i) Note the difference between the total minimum lease payments and the total capital elements of leases is due to future finance charges.

Financial liabilities within trade and other payables on an undiscounted basis	2011 £m	2010 £m
Less than 90 days	**3,356**	3,214
90 to 182 days	**90**	160
183 to 365 days	**161**	204
	3,607	3,578
Greater than 365 days	**2**	–
	3,609	3,578

Credit risk for financial assets

Credit risk from financial asset transactions is generated by the potential for the counterparty to default on its contractual obligations. 2011 was marked by a continuing shortage of available credit in European energy markets due to general economic conditions and the continuing impact of the European Sovereign debt concerns. The Group does not hold any financial instruments issued by any of Portugal, Ireland, Italy, Greece and Spain governments. Further consolidation of energy market participants in key European markets has also impacted overall market activity. Credit markets in North America have followed suit and have been volatile due to ongoing US economy and European Sovereign debt concerns. The Group continues to be vigilant and manage credit risk in accordance with its risk management policy. Details of how credit risk is managed across the asset categories shown below are included in note S3. Credit risk from financial assets is measured by counterparty credit rating as follows:

	2011			2010		
	Derivative financial instruments with positive fair values £m	Receivables from treasury, trading and energy procurement counterparties £m	Cash and cash equivalents £m	Derivative financial instruments with positive fair values £m	Receivables from treasury, trading and energy procurement counterparties £m	Cash and cash equivalents £m
AAA to AA	**5**	**128**	**411**	26	12	363
AA– to A–	**469**	**408**	**106**	647	334	104
BBB+ to BBB–	**23**	**137**	**–**	42	175	–
BB+ to BB–	**20**	**27**	**1**	2	14	–
B or lower	**3**	**1**	**–**	–	–	–
Unrated (i)	**85**	**237**	**–**	73	311	–
	605	**938**	**518**	790	846	467

(i) The unrated counterparty receivables primarily comprise amounts due from subsidiaries of rated entities, exchanges or clearing houses.

Financial assets within trade and other receivables on an undiscounted basis	2011 £m	2010 £m
Less than 30 days	**564**	365
30 to 89 days	**344**	328
Less than 90 days	**908**	693
90 to 182 days	**121**	142
183 to 365 days	**186**	182
Greater than 365 days	**77**	64
	1,292	1,081

For additional information on financial risk management see note S3.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

26. SHARE CAPITAL

Share capital of the Company

	2011 £m	2010 £m
Allotted and fully paid share capital of the Company		
5,173,244,808 ordinary shares of 6$^{14}/_{81}$p each (2010: 5,154,005,553)	**319**	318

The movement in the number of allotted and fully paid shares of the Company for the year was as follows:

	2011 Millions	2010 Millions
1 January	**5,154**	5,132
Issued under employee share schemes (i)	**19**	22
31 December	**5,173**	5,154

(i) Ordinary shares were allotted and issued to satisfy the exercise of share options, share incentive schemes, the Direct Energy Employee Share Purchase Plan and the matching element of the Share Incentive Plan as follows:

	2011	2010
Number of shares (millions)	**19**	22
Nominal value (£million)	**1.2**	1.4
Consideration (£million) (net of issue costs of £nil (2010: £nil))	**23**	31
Service consideration (£million)	**19**	25

The closing price of one Centrica ordinary share on 31 December 2011 was 289.30 pence (2010: 331.60 pence). Centrica employee share ownership trusts purchase Centrica ordinary shares from the open market and receive newly issued shares to satisfy future obligations of certain employee share schemes. During the year, the trusts purchased 0.9 million shares (2010: 2.5 million), received 4.9 million newly allotted shares (2010: 4.2 million) and released 7.0 million shares (2010: 4.1 million) to employees on vesting. At 31 December 2011, the trusts held 7.3 million shares (2010: 8.5 million) at a carrying amount of £19 million (2010: £22 million). Until such time as the Company's own shares held by these trusts vest unconditionally, the amount paid for those shares, or the value they were issued at, are held as treasury shares and are deducted from shareholders' equity.

27. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

	2011					2010				
	Available-for-sale reserve (AFS) £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Total £m	Available-for-sale reserve (AFS) £m	Cash flow hedging reserve £m	Foreign currency translation reserve £m	Actuarial gains and losses reserve £m	Total £m
1 January	(11)	(56)	91	(343)	**(319)**	(6)	(244)	8	(345)	(587)
Exchange differences on translation of foreign operations	–	(3)	(12)	–	**(15)**	–	(8)	70	(1)	61
Recycling of foreign exchange on disposal of business	–	–	(3)	–	**(3)**	–	9	(1)	–	8
Actuarial gains/(losses) (note 29)	–	–	–	198	**198**	–	–	–	(9)	(9)
Revaluation of available-for-sale securities	(4)	–	–	–	**(4)**	(4)	–	–	–	(4)
Transfer of AFS reserve to income statement	23	–	–	–	**23**	–	–	–	–	–
Cash flow hedges:										
Net fair value (losses)/gains	–	(99)	–	–	**(99)**	–	10	–	–	10
Transferred to income and expense (i)	–	42	–	–	**42**	–	236	–	–	236
Transferred to assets and liabilities	–	2	–	–	**2**	–	19	–	–	19
Share of other comprehensive income of joint ventures and associates	–	(1)	–	(24)	**(25)**	–	1	–	14	15
Taxation on above items	(2)	23	–	(59)	**(38)**	(1)	(79)	14	(2)	(68)
31 December	**6**	**(92)**	**76**	**(228)**	**(238)**	(11)	(56)	91	(343)	(319)

(i) Included within gross profit

Foreign currency translation reserve

The foreign currency translation reserve comprises exchange translation differences on foreign currency net investments. Historically the Group has been hedging its foreign investments and so the opening balance of foreign currency translation reserve includes exchange translation differences on borrowings and derivatives classified as net investment hedges under the requirements of IAS 39.

Cash flow hedging reserve

The cash flow hedging reserve comprises fair value movements on instruments designated as cash flow hedges under the requirements of IAS 39. Note 20 provides further detail on cash flow hedging.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

27. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS) CONTINUED

The maturity analysis of amounts included in the cash flow hedging reserve, which includes fair value gains and losses in relation to commodity, interest rate and currency hedges, is as follows:

	2011 £m	2010 £m
Within one year	**(57)**	(38)
Between one and five years	**(13)**	(6)
After five years	**(22)**	(12)
	(92)	(56)

The maturity profile reflects the timing of expected transfers from the cash flow hedging reserve to the Income Statement as and when the hedged item affects the Income Statement which is, for the most part, on delivery of physical volumes for energy contracts and the accrual of interest for debt contracts.

28. OTHER EQUITY

	2011					2010				
	Revaluation reserve £m	Treasury shares reserve £m	Share-based payments reserve £m	Merger and capital redemption reserve £m	**Total £m**	Revaluation reserve £m	Treasury shares reserve £m	Share-based payments reserve £m	Merger and capital redemption reserve £m	Total £m
1 January	27	(22)	113	483	**601**	26	(15)	87	483	581
Employee share schemes:										
Increase in treasury shares	–	(19)	–	–	**(19)**	–	(20)	–	–	(20)
Exercise of awards	–	22	(33)	–	**(11)**	–	13	(44)	–	(31)
Value of services provided	–	–	40	–	**40**	–	–	48	–	48
Taxation on above items	–	–	(8)	–	**(8)**	–	–	20	–	20
Exchange adjustments	(1)	–	–	–	**(1)**	1	–	2	–	3
31 December	**26**	**(19)**	**112**	**483**	**602**	27	(22)	113	483	601

For additional explanation of the reserves that are included in the above table, see note S4.

29. PENSIONS

(a) Summary of main defined benefit schemes

Name of scheme	Section	Status	Funding/tax status	Country
Centrica Engineers Pension Scheme	Final salary section Career average section	Closed to new members Open to new members	Funded/tax-registered Funded/tax-registered	UK UK
Centrica Pension Plan	Management section 2008 section	Closed to new members Closed to new members	Funded/tax-registered Funded/tax-registered	UK UK
Centrica Pension Scheme	Final salary section Career average section	Closed to new members Closed to new members	Funded/tax-registered Funded/tax-registered	UK UK
Centrica Unapproved Pension Scheme		Closed to new members	Unfunded/non-registered	UK
Direct Energy Marketing Ltd pension plan		Closed to new members	Funded/tax-registered	Canada

The Centrica Pension Scheme also has a defined contribution section which is open to new members.

The Centrica Engineers Pension Scheme (CEPS), Centrica Pension Plan (CPP) and Centrica Pension Scheme form the majority of the Group's defined benefit obligation and are referred to below as the 'Registered Pension Schemes'.

For additional background information to the Group's pension schemes, see note S6.

(b) 2011 curtailment gain

During the year, the Company announced changes to the terms of the final salary sections of the CEPS and the CPP with the changes taking effect from 1 January 2012 and 1 March 2012 respectively. Employees' annual increases in pensionable pay will be capped to 2% and annual increases in respect of future years' service for pensions in deferment will be the lower of CPI and 2.5%. Following agreement of the changes in October 2011 (for CEPS) and December 2011 (for CPP) with the trade unions and the trustees, the Company has recognised exceptional curtailment gains of £333 million, as disclosed in note 7.

The other final salary defined benefit obligations in the UK are within the Centrica Pension Scheme and the Centrica Unapproved Pension Scheme, which have a combined active membership of approximately 100 employees.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. PENSIONS CONTINUED

(c) Accounting assumptions

The accounting assumptions for the Registered Pension Schemes are given below.

Major assumptions used for the actuarial valuation	31 December 2011 %	31 December 2010 %
Rate of increase in employee earnings:		
Subject to cap	**2.0**	n/a
Other	**4.3**	4.7
Rate of increase in pensions in payment	**3.3**	3.7
Rate of increase in deferred pensions:		
In line with CPI capped at 2.5%	**2.3**	n/a
In line with RPI	**3.3**	3.7
Discount rate	**5.4**	5.7

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date have been based on a combination of standard actuarial mortality tables, scheme experience and other relevant data, and include a medium cohort allowance, as published by the Institute and Faculty of Actuaries, with an underpin. The longevity assumptions for members in normal health are as follows:

Life expectancy at age 65 for a member	2011 Male Years	2011 Female Years	2010 Male Years	2010 Female Years
Currently aged 65	**22.7**	**24.0**	22.6	24.0
Currently aged 45	**24.5**	**25.4**	24.4	25.3

At 31 March 2009, the date of the most recent actuarial review, the schemes had approximately 34,900 members and beneficiaries. The other demographic assumptions have been set having regard to the latest trends in scheme experience and other relevant data. The assumptions are reviewed and updated as necessary as part of the periodic actuarial valuation of the pension schemes.

Impact of changing material assumptions	2011 Increase/ decrease in assumption	2011 Indicative effect on scheme liabilities %	2010 Increase/ decrease in assumption	2010 Indicative effect on scheme liabilities %
Rate of increase in employee earnings	**0.25%**	**nil**	0.25%	+/–1
Rate of increase in pensions in payment and deferred pensions	**0.25%**	**+/–5**	0.25%	+/–5
Discount rate	**0.25%**	**–/+6**	0.25%	–/+6
Inflation assumption	**0.25%**	**+/–5**	0.25%	+/–6
Longevity assumption	**1 year**	**+/–2**	1 year	+/–2

The remaining disclosures in this note cover all of the Group's defined benefit schemes.

(d) Amounts included in the Group Balance Sheet

	2011 £m	2010 £m
Fair value of plan assets	**4,670**	4,335
Present value of defined benefit obligation	**(4,340)**	(4,574)
Net asset/(liability) recognised in the Balance Sheet	**330**	(239)
Associated deferred tax (liability)/asset recognised in the Balance Sheet	**(81)**	67
Net pension asset/(liability) after deferred tax	**249**	(172)
Pension asset/(liability) presented in the Balance Sheet as:		
Retirement benefit assets	**413**	–
Retirement benefit liabilities	**(83)**	(239)
Net pension asset/(liability)	**330**	(239)

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. PENSIONS CONTINUED

(e) Movement in the year

	Pension liabilities		Pension assets	
	2011 £m	2010 £m	**2011 £m**	2010 £m
1 January	**(4,574)**	(4,098)	**4,335**	3,533
Items included in the Group Income Statement:				
Current service cost	**(118)**	(115)	**–**	–
Loss on curtailment	**(1)**	(14)	**–**	–
Exceptional gains on curtailment	**333**	–	**–**	–
Interest on scheme liabilities	**(258)**	(249)	**–**	–
Expected return on scheme assets	**–**	–	**285**	275
Items included in Other Comprehensive Income:				
Actuarial gain/(loss)	**198**	(163)	**–**	154
Exchange adjustments	**1**	(7)	**(1)**	3
Items included in the Group Cash Flow Statement:				
Employer contributions	**–**	–	**130**	441
Other movements:				
Plan participants' contributions	**(29)**	(33)	**29**	33
Benefits paid from schemes	**108**	105	**(108)**	(104)
31 December	**(4,340)**	(4,574)	**4,670**	4,335

In addition to current service cost on the Group's defined benefit pension schemes, the Group also charged £10 million (2010: £5 million) to operating profit in respect of defined contribution pension schemes.

(f) Analysis of the actuarial gain/(loss) recognised in the Statement of Comprehensive Income

	2011 £m	2010 £m
Actuarial gain (actual return less expected return on pension scheme assets)	**–**	154
Experience gains arising on the scheme liabilities	**57**	74
Changes in assumptions underlying the present value of the schemes' liabilities	**141**	(237)
Actuarial gain/(loss) recognised in accumulated other comprehensive income (before taxation)	**198**	(9)
Cumulative actuarial losses recognised in reserves at 1 January, before adjustment for taxation	**(489)**	(480)
Cumulative actuarial losses recognised in reserves at 31 December, before adjustment for taxation	**(291)**	(489)

(g) Pension schemes assets

The expected long-term rate of return and the market value of plan assets are illustrated below:

	2011		2010	
	Fair value £m	**Expected long-term rate of return per annum %**	Fair value £m	Expected long-term rate of return per annum %
UK equities	**400**	**7.5**	659	8.0
Non-UK equities	**1,337**	**7.7**	1,261	8.0
Fixed-interest bonds	**1,370**	**5.3**	1,182	5.5
Inflation-linked assets	**1,067**	**3.9**	773	4.2
High-yield debt	**292**	**6.3**	229	7.5
Property	**168**	**6.8**	134	7.6
Cash pending investment	**36**	**4.6**	97	5.6
	4,670	**6.0**	4,335	6.6

The overall expected rate of return on assets is a weighted average based on the actual plan assets held in each class and the expected returns on separate asset classes, less costs of administering the plan and taxes paid by the plan itself. The returns on separate asset classes are based on the expected median return over a 10-year period (for equities, high-yield debt and property) and appropriate market indices (for fixed-interest bonds and inflation-linked assets). These returns are calculated by the independent company actuary, and adjusted for factors specific to the investment portfolio of the Centrica Combined Common Investment Fund, such as the duration of the assets.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. PENSIONS CONTINUED

Included within the Group Balance Sheet within non-current securities are £54 million (2010: £52 million) of investments, held by the Law Debenture Trust on behalf of the Company, as security in respect of the unfunded Centrica Unapproved Pension Scheme. Included within the pension schemes' liabilities above are £34 million (2010: £33 million) relating to this scheme.

(h) Pension scheme contributions

Based on the triennial valuation at 31 March 2009, the Company and the trustees of the Registered Pension Schemes agreed a schedule for deficit payments. An amount of £27 million has been paid in the year to 31 December 2011 and the following further deficit payments will be made: £37 million in 2012 and £57 million per annum from 2013 to 2016. Although there is an accounting surplus in the three Registered Pension Schemes, low government bond yields are likely to result in a deficit at the next triennial valuation scheduled to be prepared for the trustees as at 31 March 2012. It is unlikely, therefore, that the agreed deficit payments will reduce following the triennial valuation and they may increase or be extended. In addition, a charge over the Humber power station has been provided as additional security for the trustees.

The Company also estimates that it will pay £90 million of employer contributions during 2012 at an average rate of 17% of pensionable pay.

(i) Five-year histories

Five-year history of surplus/(deficit)	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Plan assets	**4,670**	4,335	3,533	2,642	3,327
Defined benefit obligations	**(4,340)**	(4,574)	(4,098)	(2,755)	(3,230)
Surplus/(deficit)	**330**	(239)	(565)	(113)	97

Five-year history of experience gains and losses	2011	2010	2009	2008	2007
Difference between the expected and actual return on scheme assets:					
Amount (£m)	**–**	154	344	(1,121)	(38)
Percentage of scheme assets	**–**	3.6%	9.7%	42.4%	1.1%
Experience gains/(losses) on scheme liabilities:					
Amount (£m)	**57**	74	(104)	–	(16)
Percentage of the present value of scheme liabilities	**1.3%**	1.6%	2.5%	–	0.5%
Total actuarial gains/(losses) recognised in the Group Statement of Comprehensive Income:					
Amount (£m)	**198**	(9)	(804)	(399)	284
Percentage of the present value of scheme liabilities	**4.6%**	0.2%	19.6%	14.5%	8.8%

30. BUSINESS COMBINATIONS

Fair values of the identifiable assets acquired and liabilities assumed

	First Choice Power £m	Other £m	Total £m
Balance Sheet items			
Intangible assets	84	49	**133**
Property, plant and equipment	2	41	**43**
Other non-current assets	–	9	**9**
Current assets (i)	71	91	**162**
Current liabilities	(44)	(51)	**(95)**
Non-current liabilities	–	(20)	**(20)**
Net assets acquired	**113**	**119**	**232**
Goodwill	93	60	**153**
Total consideration	**206**	**179**	**385**
Consideration comprises:			
Cash consideration	206	173	**379**
Deferred cash consideration	–	6	**6**
Income Statement items			
Revenue recognised since the acquisition date and included within the Group Income Statement	37	159	**196**
Profit recognised since the acquisition date and included within the Group Income Statement	1	–	**1**

(i) Includes a bad debt provision of £11 million, predominantly in relation to First Choice Power trade receivables.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. BUSINESS COMBINATIONS CONTINUED

First Choice Power

On 1 November 2011, the Group acquired 100% of the shares in FCP Enterprises Inc ('First Choice Power') for cash consideration of $325 million (£206 million). First Choice Power is a Texas-based independent retail electricity supplier with more than 220,000 residential and small commercial customers. The acquisition is another important step towards growing scale and leadership in North America, and significantly enlarges the business in one of the key US deregulated residential markets. The acquisition is included within the North America – Residential energy supply segment.

Goodwill of $146 million (£93 million) arose, principally attributable to expected cost savings and synergies and is expected to be deductible for tax purposes. Acquisition costs of $0.2 million (£0.1 million) were expensed as operating costs. The fair values disclosed in the table are provisional pending finalisation of the completion accounts process.

Other acquisitions

The Group also acquired the following companies and interests during the year. The goodwill of £60 million is attributable to enhanced geographic presence, cost savings, synergies and growth opportunities, £4 million of which is expected to be deductible for tax purposes. Acquisition costs of £1.5 million were expensed as operating costs. The fair values are provisional unless stated otherwise.

Project	Description of business acquired	Date of control	Consideration (i)	Equity acquired
Wildcat Hills	Additional natural gas and infrastructure interests within the Wildcat Hills area. Increases natural gas reserves to meet North American supply requirements.	31 March 2011	CA$45m (£29m)	Various operating interests. No gain/loss on revaluation of existing interests
Gateway Energy Services Corporation	Independent retail energy supplier focused on residential and commercial customers. Increases customer relationships in US North-East and Mid-Atlantic.	1 May 2011	$108m including $10m deferred (£65m including £6m deferred)	100% of shares
PH Jones Group Limited	Independent provider of central heating services to social housing market. Increases business growth opportunities and helps cut customer carbon and fuel bills.	13 May 2011	£26m	100% of shares
Vectren Retail LLC	Supplier of gas to residential and small business customers. Increases customer relationships in US North-East.	30 December 2011	$84m (£54m)	100% of shares

(i) A small number of other businesses have been acquired for total consideration of £5 million.

Pro forma information

The pro forma consolidated results of the Group, as if the acquisitions had been made at the beginning of the year, would show revenue from continuing operations of £23,305 million (compared to reported revenue of £22,824 million) and profit after taxation of £436 million (compared to reported profit after taxation of £421 million).

This information is not necessarily indicative of the results of the combined Group that would have occurred had the purchases actually been made at the beginning of the year presented, or indicative of the future results of the combined Group.

2010 acquisitions – fair value updates

During the year to 31 December 2011, there have been no significant updates to the fair value entries posted in relation to acquisitions which occurred in 2010.

31. DISPOSALS, DISCONTINUED OPERATIONS AND DISPOSAL GROUPS HELD FOR SALE

The European segment was classified as a discontinued operation during 2009 following the Group's decision to dispose of its 100% interests in Segebel S.A. (Segebel), Centrica Energía S.L. (Centrica Energía) in Spain and Oxxio B.V. (Oxxio) in the Netherlands. The disposal of Segebel was completed in 2009. The sale of Centrica Energía was completed in November 2010.

On 1 June 2011, the Group completed its planned disposal of its European segment with the sale of the trade and assets of Oxxio which resulted in a loss on disposal of £56 million.

	Oxxio £m
Non-current assets (i)	115
Current assets (ii)	287
Current liabilities	(236)
Total net assets disposed	**166**
Total consideration (iii)	111
Net assets disposed	(166)
Foreign exchange recycled from reserves	3
Disposal costs	(4)
Loss on disposal after taxation	**(56)**

(i) Includes PP&E of £35 million and intangible assets and goodwill of £80 million which were included in assets held for sale.
(ii) Includes cash and cash equivalents of £8 million.
(iii) Includes deferred consideration of £25 million.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

32. SHARE-BASED PAYMENTS

(a) Summary of principal share-based payment plans and movements in the number of shares and options outstanding

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. Centrica operates nine employee share schemes which gave rise to a charge of £40 million (2010: £48 million) which represents 2% (2010: 3%) of employee costs. Over 70% of this share-based payment charge arose from three schemes: Deferred and Matching Share Scheme (DMSS), Long Term Incentive Scheme (LTIS) and Share Award Scheme (SAS). The DMSS and LTIS schemes have been described in the Remuneration Report on pages 55 and 56 respectively, with further details in note S7.

Share Award Scheme (SAS)

Under the SAS, allocations of shares in Centrica plc are made to selected employees at middle management levels, based on recommendation by the Chief Executive and the Group Director, Human Resources. There is no contractual eligibility for SAS and each year's award is made independently from previous awards. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment within the Group (except where permitted by the rules of the scheme) in two stages – half of the award vesting after two years, the other half vesting after three years. On vesting, additional shares are awarded or a cash payment is made to reflect dividends that would have been paid on the allocations during the vesting period. The fair value is therefore considered to be the market value at date of grant.

A reconciliation of total number of shares allocated under these three schemes is as follows:

(Number of shares)	2011 Thousands	2010 Thousands
Balance at start of year	**51,969**	46,880
Granted	**18,245**	17,947
Released [(i)]	**(8,938)**	(7,583)
Forfeited	**(10,183)**	(5,275)
Balance at end of year	**51,093**	51,969

(i) For shares released during the period, the weighted average share price was £3.30 (2010: £2.98).

(b) Fair values and associated details of shares granted under the principal schemes

	2011			2010		
	DMSS	LTIS	SAS	DMSS	LTIS	SAS
Number of equity instruments granted (in thousands) [(i)]	**4,670**	**10,600**	**3,133**	4,855	10,366	3,187
Weighted average fair value at date of grant	**£2.89**	**£2.57**	**£3.32**	£3.32	£2.42	£2.97
Expected performance lapses	**0%**	**n/a**	**n/a**	0%	n/a	n/a
Vesting period	**4 years**	**3 years**	**2.5 years**	4 years	3 years	2.5 years
Expected volatility [(ii)]	**n/a**	**23%**	**n/a**	n/a	30%	n/a
Expected forfeitures	**6%**	**16%**	**18%**	10%	20%	18%
Risk-free rate [(ii)]	**n/a**	**1.9%**	**n/a**	n/a	1.8%	n/a
Average volatility of FTSE 100	**n/a**	**26%**	**n/a**	n/a	27%	n/a
Average cross-correlation of FTSE 100 [(iii)]	**n/a**	**50%**	**n/a**	n/a	48%	n/a

(i) The number of equity instruments granted under DMSS is the estimate on the first day of the bonus year. This differs from the table in section (a) which states the number of shares legally granted during the year.
(ii) The expected volatility is based on historical volatility over a five year period. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the expected option life.
(iii) The cross-correlation of the FTSE 100 has been obtained from a model which calculates the correlation between Centrica's historical share price and each of the remaining FTSE 100 companies over the period commensurate with the performance period of the awards.

33. AUDITORS' REMUNERATION

	2011 £m	2010 £m
Fees payable to the Company's auditors for the audit of the Company's annual accounts and Group consolidation	**4.3**	3.6
The auditing of other accounts within the Group pursuant to legislation (including that of countries and territories outside the UK)	**1.4**	1.5
Total fees related to audit of parent and subsidiary entities	**5.7**	5.1
Fees payable to the Company's auditors and its associates for other services:		
Audit related assurance services	**0.9**	0.6
Tax advisory services	**0.3**	0.1
Services related to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or any of its associates	**0.2**	1.2
All other services	**0.7**	1.6
	7.8	8.6
Fees in respect of pension scheme audits	**0.1**	0.1

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

33. AUDITORS' REMUNERATION CONTINUED

It is the Group's policy to seek competitive tenders for all major consultancy and advisory projects. Appointments are made taking into account factors including expertise, experience and cost. In addition, the Audit Committee has approved a detailed policy defining the types of work for which the auditors can tender and the approvals required. In the past, the auditors have been engaged on assignments in addition to their statutory audit duties where their expertise and experience with the Group are particularly important, including due diligence reporting and reporting accountant services on acquisitions.

34. COMMITMENTS AND CONTINGENCIES

(a) Commitments

The Group procures commodities through a mixture of production from gas fields, power stations, wind farms and procurement contracts. Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas and electricity contracts indexed to market prices and long-term gas contracts with non-gas indexation. The commitments in relation to commodity purchase contracts disclosed below are stated net of amounts receivable under commodity sales contracts, where there is a right of set-off with the counterparty.

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The commitments disclosed below are based on the minimum quantities of gas that the Group is contracted to buy at estimated future prices.

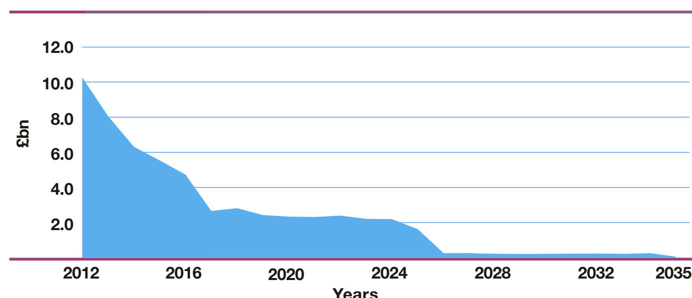
The commitments in this note differ in scope and in basis from the maturity analysis of energy derivatives disclosed in note 25. Whilst the commitments in relation to commodity purchase contracts include all purchase contracts, only certain procurement and sales contracts are within the scope of IAS 39 and included in note 25. In addition, the volumes used in calculating principal values in note 25 are estimated using valuation techniques, rather than being based on minimum contractual quantities and in note 25 there is no offset of amounts receivable under commodity sales contracts where there is a right of set-off with the counterparty.

	2011 £m	2010 restated (i) £m
Commitments in relation to the acquisition of property, plant and equipment:		
Acquisition of Statoil oil and gas assets	**983**	–
Development of York gas field	**82**	–
Other gas field developments	**13**	119
Other capital expenditure	**74**	65
Commitments in relation to the acquisition of intangible assets:		
Renewable obligation certificates to be purchased from joint ventures (ii)	**1,377**	1,145
Renewable obligation certificates to be purchased from other parties	**774**	631
EUAs and CERs	**44**	166
Exploration activity	**122**	80
Other intangible asset purchase commitments	**71**	66
Other commitments:		
Commodity purchase contracts	**58,311**	40,420
LNG capacity	**844**	874
Transportation capacity	**969**	771
Outsourcing of services	**348**	444
Commitments to invest in joint ventures	**234**	319
Other long term commitments	**777**	661
Operating lease commitments:		
Future minimum lease payments under non-cancellable operating leases (iii)	**950**	963

(i) Restated to correct prior year comparatives.
(ii) Renewable obligation certificates are purchased from several joint ventures which produce power from wind energy under long term offtake agreements (up to 15 years). The commitments disclosed above are the gross contractual commitments and do not take into account the Group's economic interest in the joint venture.
(iii) At 31 December the maturity analysis for the total minimum lease payments under non-cancellable operating leases was: <1 year £157 million, 1-2 years £130 million, 2-3 years £88 million, 3-4 years £65 million, 4-5 years £54 million and >5 years £456 million (2010: <1 year £146 million, 1-5 years £331 million and >5 years £486 million).

Commitment profile

The above commitments span many years. For the most significant commitment category, commodity purchase contracts, the graph on the right shows when the £58 billion commitments fall due:



NOTES TO THE FINANCIAL STATEMENTS CONTINUED

34. COMMITMENTS AND CONTINGENCIES CONTINUED

Lease payments recognised as an expense in the year were as follows:

	2011 £m	2010 £m
Minimum lease payments (net of sub-lease receipts)	**126**	101
Contingent rents – renewables [(i)]	**132**	115

(i) The Group has entered into long-term arrangements with renewable providers to purchase physical power, renewable obligation certificates and levy exemption certificates from renewable sources. Payments made under these contracts are contingent upon actual production and so there is no commitment to a minimum lease payment (2010: £nil). Payments made for physical power are charged to the Income Statement as incurred and disclosed as contingent rents.

(b) Guarantees and indemnities

In connection with the Group's energy trading, transportation and upstream activities, certain Group companies have entered into contracts under which they may be required to prepay, provide credit support or other collateral in the event of a significant deterioration in creditworthiness. The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration.

The Group has provided a number of guarantees and indemnities in respect of decommissioning costs; the most significant two indemnities relate to the decommissioning costs associated with the Morecambe and Statfjord fields. These indemnities are to the previous owners of these fields. Under the licence conditions of the fields, the previous owners will have exposure to the decommissioning costs should these liabilities not be fully discharged by the Group.

The security is to be provided when the estimated future net revenue stream from the associated gas field falls below a predetermined proportion of the estimated decommissioning cost. The nature of the security may take a number of different forms and will remain in force until the costs of such decommissioning have been irrevocably discharged and the relevant legal decommissioning notices in respect of the relevant fields have been revoked.

(c) Contingent liabilities

There are no material contingent liabilities.

35. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following arms length transactions with related parties who are not members of the Group and had the following associated balances:

	2011				2010			
	Sale of goods and services £m	Purchase of goods and services £m	Amounts owed from £m	Amounts owed to £m	Sale of goods and services £m	Purchase of goods and services £m	Amounts owed from £m	Amounts owed to £m
Joint ventures:								
Wind farms (as defined in note 16)	**25**	**92**	**312**	**46**	–	82	206	37
Associates:								
Nuclear (as defined in note 16)	**278**	**516**	**19**	**65**	278	284	33	53
Other	**–**	**8**	**17**	**–**	–	38	–	2
	303	**616**	**348**	**111**	278	404	239	92

Investment and funding transactions for joint ventures and associates are disclosed in note 16. The terms of the outstanding balances related to trade receivables from related parties are typically 30 to 120 days. The balances are unsecured and will be settled in cash. No provision for bad or doubtful debts owed by related parties was required (2010: £nil).

Key management personnel comprise members of the Board and Executive Committee, a total of 15 individuals at 31 December 2011 (2010: 14). Key management personnel and their families purchase gas, electricity and home services products from the Group for domestic purposes on terms equal to those for other employees of the Group.

Remuneration of key management personnel	2011 £m	2010 £m
Short-term benefits	**7**	10
Post-employment benefits	**2**	1
Share-based payments	**8**	10
	17	21

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

36. FIXED-FEE SERVICE AND INSURANCE CONTRACTS

The fixed-fee service claims and insurance claims notified during the year were £115 million (2010: £259 million) and £356 million (2010: £104 million) respectively and were exactly matched by expenses related to fixed-fee service and insurance contracts. All claims are settled immediately and in full. Due to the short lead time between claims being incurred and claims being rectified, there are no material provisions outstanding at the balance sheet date (2010: £nil).

	2011 £m	2010 £m
Total revenue	**1,167**	1,098
Expenses relating to fixed-fee service and insurance contracts	**904**	851
Deferred income (unearned premium)	**68**	57
Accrued income	**28**	34

The Group considers the adequacy of estimated future cash flows under the contracts to meet expected future costs under the contracts. Any deficiency is charged immediately to the Income Statement. Service requests are sensitive to the reliability of appliances as well as the impact of weather conditions. Each incremental 1% increase in service and insurance requests would impact profit and equity by approximately £9 million (2010: £9 million). The contracts are not exposed to any interest rate risk or significant credit risk and do not contain any embedded derivatives. See note S8 for more information.

37. EVENTS AFTER THE BALANCE SHEET DATE

The Directors propose a final dividend of 11.11 pence per ordinary share (totalling £575 million) for the year ended 31 December 2011. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 11 May 2012 and, subject to approval, will be paid on 13 June 2012 to those shareholders registered on 27 April 2012.

North American acquisitions

On 11 November 2011 Direct Energy announced the purchase of Home Warranty of America, a US nationwide home warranty protection plan company, for $48 million (£31 million). The acquisition involves the purchase of 100% of the shares of the company and it is anticipated this transaction will close in March 2012, pending regulatory approval. The acquisition allows Direct Energy to sell nationwide home protection plans and provides further growth and integration opportunities. A provisional goodwill value of $43 million (£27 million) is expected to arise, 40% of which is expected to be deductible for tax purposes.

On 8 December 2011 Direct Energy announced that it had agreed to acquire a package of natural gas assets located in west central Alberta (Carrot Creek assets) from Encana Corporation for CA$58 million (£37 million) in cash and Direct Energy's existing Entice asset with fair value of CA$48 million (£30 million). The Group obtained control of the business on 10 January 2012. The acquisition allows the Group to grow its North American upstream gas business. No goodwill is expected to arise.

Strategic partnership with Statoil and Norwegian asset acquisition

On 21 November 2011 Centrica Energy announced that it had signed a 10-year gas supply contract with Statoil starting from 2015, an agreement to pay $1,525 million (£983 million) with an additional payment of up to $100 million (£64 million) contingent on future production performance for the acquisition of producing and development assets in the Norwegian North Sea and a strategic agreement for partnership on gas exploration activities. As part of the transaction the relevant parts of Statoil's capacity rights in the gas export system from Norway to the UK and the Continent will be transferred to Centrica. The transaction is expected to complete in May 2012 and will help to deliver UK energy security, develop our strategic relationship with Statoil and further expand Centrica Energy's upstream business.

Statfjord asset acquisition

On 30 January 2012, Centrica Energy announced that it has reached agreement with ConocoPhillips to acquire its non-operated interests in the gas and oil producing Statfjord field and associated satellites for a total cash consideration of $223 million (£142 million). The deal is expected to complete in May 2012. The acquisition further strengthens Centrica's integrated business model and provides another source of gas for our UK customers.

Asset acquisition from Total

On 22 February 2012, Centrica announced an agreement with Total to acquire a portfolio of UK North Sea non-operated producing oil and gas assets for a cash consideration of $388 million (£246 million). The transaction is expected to close on a field by field basis. The earliest closing date is expected to be around July 2012. The acquisition increases the reserves of the Group and provides additional gas to meet supply requirements of our UK customers.

SUPPLEMENTARY INFORMATION

S1. GENERAL INFORMATION

Centrica plc is a Company domiciled and incorporated in the UK. The address of the registered office is given on page 51. The nature of the Group's operations and principal activities are set out in note S5 and in the Directors' Report – Business Review on pages 5 to 40.

The consolidated Financial Statements of Centrica plc are presented in pounds sterling. Operations and transactions conducted in currencies other than pounds sterling are included in the consolidated Financial Statements in accordance with the foreign currencies accounting policy set out in note S2.

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Statement presentation

The Group's Income Statement and segmental note separately identify the effects of re-measurement of certain financial instruments, and items which are exceptional, in order to provide readers with a clear and consistent presentation of the Group's underlying performance, as described below.

(i) Certain re-measurements

As part of its energy procurement activities, the Group enters into a range of commodity contracts designed to achieve security of energy supply. These contracts comprise both purchases and sales and cover a wide range of volumes, prices and timescales. The majority of the underlying supply comes from high-volume, long-term contracts which are complemented by short-term arrangements. These short-term contracts are entered into for the purpose of balancing energy supplies and customer demand and to optimise the price paid by the Group. Short-term demand can vary significantly as a result of factors such as weather, power generation profiles and short-term movements in market prices.

Many of the energy procurement contracts are held for the purpose of receipt or delivery of commodities in accordance with the Group's purchase, sale or usage requirements and are therefore out of scope of IAS 39. However, a number of contracts are considered to be derivative financial instruments and are required to be fair valued under IAS 39, primarily because their terms include the ability to trade elements of the contracted volumes on a net-settled basis.

The Group has shown the fair value adjustments arising on these contracts separately in the certain re-measurements column. This is because the intention of management is, subject to short-term demand balancing, to use these energy supplies to meet customer demand. Accordingly, management believes the ultimate net charge to cost of sales will be consistent with the price of energy agreed in these contracts and that the fair value adjustments will reverse as the energy is supplied over the life of the contract. This makes the fair value re-measurements very different in nature from costs arising from the physical delivery of energy in the year.

At the balance sheet date the fair value represents the difference between the prices agreed in the respective contracts and the actual or anticipated market price of acquiring the same amount of energy on the open market. The movement in the fair value taken to certain re-measurements in the Income Statement represents the unwinding of the contracted volume delivered or consumed during the year, combined with the change in fair value of future contracted energy as a result of movements in forward energy prices during the year.

As an integrated energy business, the Group also enter into a range of commodity contracts designed to secure the value of its underlying production, generation, storage and transportation assets. The fair value movements on these contracts are also shown separately in the certain re-measurements column. This is because the fair value movements on these contracts are not matched with fair value movements of the underlying assets, since not all the underlying assets are fair valued.

These adjustments represent the significant majority of the items included in certain re-measurements.

In addition to these, however, the Group has identified a number of comparable contractual arrangements where the difference between the price which the Group expects to pay or receive under a contract and the market price is required to be fair valued by IAS 39. These additional items relate to cross-border transportation or transmission capacity, storage capacity and contracts relating to the sale of energy by-products, on which economic value has been created which is not wholly recognised under the requirements of IAS 39. For these arrangements the related fair value adjustments are also included under certain re-measurements.

These arrangements are managed separately from proprietary energy trading activities where trades are entered into speculatively for the purpose of making profits in their own right. These proprietary trades are included in the results before certain re-measurements.

In addition, certain re-measurements include the effects of unwinding the acquisition-date fair values attributable to forward energy procurement and energy sales contracts arising on the acquisition of Strategic Investments, as described in note 2. The Group has shown the effect of unwinding the acquisition-date fair values attributable to forward energy procurement and energy sales contracts for these investments separately as a certain re-measurement as the intention is to use these energy supplies in the normal course of business and management believes the ultimate net charge reflected before the unwind of acquisition-date fair values will be consistent with the price of energy agreed within these contracts. Such presentation is consistent with the internal performance measures used by the Group.

(ii) Exceptional items

As permitted by IAS 1 (Revised), Presentation of Financial Statements, certain items are presented separately. The items that the Group separately presents as exceptional are items which are of a non-recurring nature and, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance.

Basis of consolidation

The Group Financial Statements consolidate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) up to 31 December each year, and incorporate the results of its share of jointly controlled entities and associates using the equity method of accounting.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are consolidated from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the Financial Statements of subsidiaries, associates and jointly-controlled entities to bring the accounting policies used into line with those used by the Group.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as a joint venture, associate or financial asset.

Segmental reporting

The Group's operating segments are reported in a manner consistent with the internal reporting provided to and regularly reviewed by the Group's Executive Committee for the purposes of evaluating segment performance and allocating resources.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. Revenue includes amounts receivable for goods and services provided in the normal course of business, net of discounts, rebates, VAT and other sales-related taxes.

Energy supply: Revenue is recognised on the basis of energy supplied during the year. Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns, taking into account the

SUPPLEMENTARY INFORMATION CONTINUED

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

industry reconciliation process for total gas and total electricity usage by supplier, and is included in accrued energy income within trade and other receivables.

Proprietary energy trading: Revenue comprises both realised (settled) and unrealised (fair value changes) net gains and losses from trading in physical and financial energy contracts.

Fixed-fee service and insurance contracts: Revenue from these contracts is recognised in the Income Statement with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term.

Amounts paid in advance greater than recognised revenue are treated as deferred income, with any paid in arrears recognised as accrued income. For one-off services, such as installations, revenue is recognised at the date of service provision.

Storage services: Storage capacity revenues are recognised evenly over the contract period, whilst commodity revenues for the injection and withdrawal of gas are recognised at the point of gas flowing into or out of the storage facilities. Gas purchases and gas sales transactions entered into to optimise the performance of the gas storage facilities are presented net within revenue.

Upstream production: Revenue associated with exploration and production sales (of natural gas, crude oil and condensates) is recognised when title passes to the customer. Revenue from the production of natural gas, oil and condensates in which the Group has an interest with other producers is recognised based on the Group's working interest and the terms of the relevant production sharing arrangements (the entitlement method). Where differences arise between production sold and the Group's share of production, this is accounted for as an overlift or underlift (see separate accounting policy). Purchases and sales entered into to optimise the performance of production facilities are presented net within revenue.

Power generation: Revenue is recognised on the basis of power supplied during the period. Power purchases and sales entered into to optimise the performance of power generation facilities are presented net within revenue.

Interest income: Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying value.

Cost of sales

Energy supply includes the cost of gas and electricity produced and purchased during the year taking into account the industry reconciliation process for total gas and total electricity usage by supplier, and related transportation, distribution, royalty costs and bought-in materials and services.

Fixed-fee service and insurance contracts' cost of sales includes direct labour and related overheads on installation work, repairs and service contracts in the year.

Borrowing costs

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset are capitalised and subsequently amortised in line with the depreciation of the related asset. Borrowing costs are capitalised from the time of acquisition or from the beginning of construction or production until the point at which the qualifying asset is ready for use. Where a specific financing arrangement is in place, the specific borrowing rate for that arrangement is applied. For non-specific financing arrangements, a Group financing rate representative of the weighted average borrowing rate of the Group is used. Borrowing costs not arising in connection with the acquisition, construction or production of a qualifying asset are expensed.

Carbon Emissions Reduction Target programme and Communities Energy Savings Programme

UK-licensed energy suppliers are set a Carbon Emission Reduction Target ('CERT') by the Government which is proportional to the size of their customer base. The current CERT programme runs from April 2008 to December 2012. The CERT targets have been amended from April 2011, to include individual sub-targets related to insulation and non-insulation based carbon reductions. UK licensed energy suppliers and electricity generators are also required to contribute to the Communities Energy Saving Programme ('CESP') by the Government in proportion to the size of their customer base and also the amount of electricity they generate. The current CESP programme runs from October 2009 to December 2012.

The targets and contributions are subject to an annual adjustment throughout the programme period to take account of changes in their energy supplier's customer base and amount of electricity generated. Energy suppliers and generators can meet the target through expenditure on qualifying projects which give rise to carbon savings. The carbon savings can be transferred between suppliers and generators.

The Group charges the cost of the programmes to cost of sales with a provision recognised where there is a deficit of relevant credits held compared to the sub-target obligations accrued and capitalises the costs incurred in deriving carbon savings in excess of the annual targets or contribution as inventory. The inventory balance is valued at the lower of cost and net realisable value and may be used to meet the sub-target obligations in subsequent periods or sold to third parties. The inventory is carried on a first-in, first-out basis. The obligation for the programme period is allocated to reporting periods on a straight-line basis as adjusted by the annual determination process.

Employee share schemes

The Group operates a number of employee share schemes, detailed in the Remuneration Report on pages 52 to 63 and in notes 32 and S7, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest, and adjusted for the effect of non-market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS: EPS awards after 2005	Market value on the date of grant
LTIS: TSR awards after 2005	A Monte Carlo simulation to predict the total shareholder return performance
SAS and DMSS	Market value on the date of grant

Foreign currencies

The consolidated Financial Statements are presented in pounds sterling, which is the functional currency of the Company and the Group's presentation currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using that functional currency. Transactions in foreign currencies are, on initial recognition, recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are included in the Income Statement for the period with the exception of exchange differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal or partial disposal of the net investment, at which time they are recognised in the Income Statement.

Non-monetary items that are measured in terms of historical cost in a currency other than the functional currency of the entity concerned are translated using the exchange rates as at the dates of the initial transactions.

SUPPLEMENTARY INFORMATION CONTINUED

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

For the purpose of presenting consolidated Financial Statements, the assets and liabilities of the Group's foreign subsidiary undertakings, jointly controlled entities and associates are translated into pounds sterling at exchange rates prevailing on the balance sheet date. The results of foreign subsidiary undertakings, jointly controlled entities and associates are translated into pounds sterling at average rates of exchange for the relevant period.

Exchange differences arising from the retranslation of the opening net assets and the results are transferred to the Group's foreign currency translation reserve, a separate component of equity, and are reported in the Statement of Comprehensive Income. In the event of the disposal of an undertaking with assets and liabilities denominated in a foreign currency, the cumulative translation difference arising in the foreign currency translation reserve is charged or credited to the Income Statement on disposal.

Exchange differences on foreign currency borrowings, foreign currency swaps and forward exchange contracts used to hedge foreign currency net investments in foreign subsidiary undertakings, jointly controlled entities and associates are taken directly to reserves and are reported in the Statement of Comprehensive Income. All other exchange movements are recognised in the Income Statement for the year.

Business combinations and goodwill

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the cash paid and the aggregate of the fair values, at the date of exchange, of other assets transferred, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Revised), Business Combinations, are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for resale in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on a business combination represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the Income Statement.

On disposal of a subsidiary, associate or joint venture entity, any amounts of goodwill attributed to that entity is included in the determination of the profit or loss on disposal.

Other intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets include emissions trading schemes, renewable obligation certificates, certain exploration and evaluation expenditures, brands and application software, the accounting policies for which are dealt with separately below. For purchased application software, for example investments in customer relationship management and billing systems, cost includes contractors' charges, materials, directly-attributable labour and directly-attributable overheads.

Capitalisation begins when expenditure for the asset is being incurred and activities necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Amortisation commences at the point of commercial deployment. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over their useful economic life and assessed for impairment whenever there is an indication that the intangible asset could be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for on a prospective basis by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Intangible assets are derecognised on disposal, or when no future economic benefits are expected from their use.

Intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that the intangible asset could be impaired, either individually or at the CGU level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

The amortisation period for the principal categories of intangible assets are as follows:

Application software	up to 10 years
Licences	up to 20 years
Contractual customer relationships	up to 20 years
Strategic identifiable acquired brand	Indefinite

EU Emissions Trading Scheme and renewable obligations certificates

Granted carbon dioxide emissions allowances received in a period are recognised initially at nominal value (nil value). Purchased carbon dioxide emissions allowances are recognised initially at cost (purchase price) within intangible assets. A liability is recognised when the level of emissions exceeds the level of allowances granted. The liability is measured at the cost of purchased allowances up to the level of purchased allowances held, and then at the market price of allowances ruling at the balance sheet date, with movements in the liability recognised in operating profit.

Forward contracts for the purchase or sale of carbon dioxide emissions allowances are measured at fair value with gains and losses arising from changes in fair value recognised in the Income Statement. The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits.

Purchased renewable obligation certificates are recognised initially at cost within intangible assets. A liability for the renewables obligation is recognised based on the level of electricity supplied to customers, and is calculated in accordance with percentages set by the UK Government and the renewable obligation certificate buyout price for that period.

The intangible asset is surrendered and the liability is utilised at the end of the compliance period to reflect the consumption of economic benefits. Any recycling benefit related to the submission of renewable obligation certificates is recognised in the Income Statement when received.

Exploration, evaluation and production assets

Centrica uses the successful efforts method of accounting for exploration and evaluation expenditure. Exploration and evaluation expenditure associated with an exploration well, including acquisition costs related to exploration and evaluation activities, are capitalised initially as intangible assets. Certain expenditures such as geological and geophysical exploration costs are expensed. If the prospects are subsequently determined to be successful on completion of evaluation, the relevant expenditure including licence acquisition costs is transferred to PP&E and are subsequently depreciated on a unit of production basis. If the prospects are subsequently determined to be unsuccessful on completion of evaluation, the associated costs are expensed in the period in which that determination is made.

All field development costs are capitalised as PP&E. Such costs relate to the acquisition and installation of production facilities and include development drilling costs, project-related engineering and other technical services costs. PP&E, including rights and concessions related to

SUPPLEMENTARY INFORMATION CONTINUED

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

production activities, are depreciated from the commencement of production in the fields concerned, using the unit of production method, based on all of the 2P reserves of those fields. Changes in these estimates are dealt with prospectively.

The net carrying value of fields in production and development is compared on a field-by-field basis with the likely discounted future net revenues to be derived from the remaining commercial reserves. An impairment loss is recognised where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues. Exploration and production assets are reviewed annually for indicators of impairment.

Interests in joint ventures

Under the equity method, investments in jointly controlled entities are carried at cost plus post-acquisition changes in the Group's share of net assets of the jointly controlled entity, less any impairment in value in individual investments. The Income Statement reflects the Group's share of the results of operations after tax of the jointly controlled entity.

Certain exploration and production activity is conducted through joint ventures, where the venturers have a direct interest in and jointly control the assets of the venture. The results, assets, liabilities and cash flows of these jointly controlled assets are included in the consolidated Financial Statements in proportion to the Group's interest.

Interests in associates

Under the equity method, investments in associates are carried at cost plus post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in value in individual investments. The Income Statement reflects the Group's share of the results of the associate, which is net of interest and taxation and presents this as a single line item in arriving at Group operating profit on the face of the Income Statement.

Property, plant and equipment

PP&E is included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment.

The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Subsequent expenditure in respect of items of PP&E such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured. All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred.

Freehold land is not depreciated. Other PP&E, with the exception of upstream production assets (see below), are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	up to 50 years
Plant	5 to 20 years
Power stations and wind farms	up to 30 years
Equipment and vehicles	3 to 10 years
Storage	up to 40 years

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

The carrying values of PP&E are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Residual values and useful lives are reassessed annually and if necessary changes are accounted for prospectively.

Impairment of property, plant and equipment, intangible assets, investments in joint ventures and associates and goodwill

The Group reviews the carrying amounts of PP&E, intangible assets, interests in joint ventures and associates and goodwill annually, or more frequently if events or changes in circumstances indicate that the recoverable amounts may be lower than their carrying amounts. Where an asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The recoverable amount is the higher of value in use and fair value less costs to sell. At inception, goodwill is allocated to each of the Group's CGUs or groups of CGUs that expect to benefit from the business combination in which the goodwill arose. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. Any impairment is expensed immediately in the Income Statement. Any goodwill impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

An impairment loss is reversed only if there has been a change in the estimate used to determine the asset's recoverable amount since the last impairment loss was recognised, with the exception of goodwill impairment which is never reversed. Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior years. A reversal of an impairment loss is recognised in the Income Statement immediately. After such a reversal the depreciation or amortisation charge, where relevant, is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Overlift and underlift

Offtake arrangements for oil and gas produced from jointly owned operations are often such that it is not practical for each participant to receive or sell its precise share of the overall production during the period. This results in short-term imbalances between cumulative production entitlement and cumulative sales, referred to as overlift and underlift.

An overlift payable, or underlift receivable, is recognised at the balance sheet date within Trade and other payables, or Trade and other receivables, respectively and measured at market value, with movements in the period recognised within cost of sales.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are capitalised and included in PP&E at their fair value, or if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within bank loans and other borrowings, with the amount payable within 12 months included in bank overdrafts and loans within current liabilities.

Lease payments are apportioned between finance charges and reduction of the finance lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Payments under operating leases are charged to the Income Statement on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are valued on a weighted-average cost basis, with the exception of CERT inventory, and at the lower of cost and estimated net realisable value after allowance for redundant and slow-moving items.

SUPPLEMENTARY INFORMATION CONTINUED

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning gas production facilities at the end of the producing lives of fields, and storage facilities and power stations at the end of the useful life of the facilities, based on price levels and technology at the balance sheet date.

When this provision gives access to future economic benefits, a decommissioning asset is recognised and included as part of the associated PP&E and depreciated accordingly. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within PP&E. The unwinding of the discount on the provision is included in the Income Statement within interest expense.

Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. No depreciation is charged in respect of non-current assets classified as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

The profits or losses and cash flows that relate to a major component of the Group or geographical region that has been sold or is classified as held for sale are presented separately from continuing operations as discontinued operations within the Income Statement and Cash Flow Statement.

Pensions and other post-employment benefits

The Group operates a number of defined benefit pension schemes. The cost of providing benefits under the defined benefit schemes is determined separately for each scheme using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised in the Statement of Comprehensive Income.

The cost of providing retirement pensions and other benefits is charged to the Income Statement over the periods benefiting from employees' service. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested. The difference between the expected return on scheme assets and the change in present value of scheme obligations resulting from the passage of time is recognised in the Income Statement within interest income or interest expense.

The retirement benefit obligation or asset recognised in the Balance Sheet represents the present value of the defined benefit obligation of the schemes as adjusted for unrecognised past service cost, and the fair value of the schemes' assets. The present value of the defined benefit obligation or asset is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits are paid, and that have terms of maturity approximating to the terms of the related pension liability.

Payments to defined contribution retirement benefit schemes are charged as an operating expense as they fall due.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, that can be measured reliably, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material. Where discounting is used, the increase in the provision due to the passage of time is recognised in the Income Statement within interest expense. Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under a contract exceed the economic benefits expected to be received under it. Contracts to purchase or sell energy are reviewed on a portfolio basis given the fungible nature of energy, whereby it is assumed that the highest priced purchase contract supplies the highest priced sales contract and the lowest priced sales contract is supplied by the lowest priced purchase contract.

Taxation

Current tax, including UK corporation tax, UK petroleum revenue tax and foreign tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences identified at the balance sheet date, except to the extent that the deferred tax arises from the initial recognition of goodwill (if amortisation of goodwill is not deductible for tax purposes) or the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit and loss. Temporary differences are differences between the carrying amount of the Group's assets and liabilities and their tax base.

Deferred tax liabilities may be offset against deferred tax assets within the same taxable entity or qualifying local tax group. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future, against which the deductible temporary difference can be utilised.

Deferred tax is provided on temporary differences arising on subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Measurement of deferred tax liabilities and assets reflects the tax consequences expected from the manner in which the asset or liability is recovered or settled.

Financial instruments

Financial assets and financial liabilities are recognised in the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

(a) Trade receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Provision is made when there is objective evidence that the Group may not be able to collect the trade receivable. Balances are written off when recoverability is assessed as being remote. If collection is due in one year or less they are classified as current assets. If not they are presented as non-current assets.

(b) Trade payables

Trade payables are recognised at original invoice amount. If payment is due within one year or less they are classified as current liabilities. If not, they are presented as non-current liabilities.

(c) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received. Own equity instruments that are reacquired (treasury shares) are deducted from equity. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known

SUPPLEMENTARY INFORMATION CONTINUED

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

For the purpose of the Group Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(e) Interest-bearing loans and other borrowings

All interest-bearing loans and other borrowings are initially recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and other borrowings are subsequently measured at amortised cost using the effective interest method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is also adjusted to reflect the fair value movements associated with the hedged risks. Such fair value movements are recognised in the Income Statement. Amortised cost is calculated by taking into account any issue costs, discount or premium.

(f) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, which are recognised initially at fair value within the Balance Sheet. Available-for-sale financial assets are re-measured subsequently at fair value with gains and losses arising from changes in fair value recognised directly in equity and presented in the Statement of Comprehensive Income, until the asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the Income Statement for the period. Accrued interest or dividends arising on available-for-sale financial assets are recognised in the Income Statement.

At each balance sheet date the Group assesses whether there is objective evidence that available-for-sale financial assets are impaired. If any such evidence exists, cumulative losses recognised in equity are removed from equity and recognised in the Income Statement. The cumulative loss removed from equity represents the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in the Income Statement.

Impairment losses recognised in the Income Statement for equity investments classified as available-for-sale are not subsequently reversed through the Income Statement. Impairment losses recognised in the Income Statement for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(g) Financial assets at fair value through profit or loss

The Group holds investments in gilts which it designates as fair value through profit or loss. Investments are measured at fair value on initial recognition and are re-measured to fair value in each subsequent reporting period. Gains and losses arising from changes in fair value are recognised in the Income Statement within interest income or interest expense.

(h) Derivative financial instruments

The Group routinely enters into sale and purchase transactions for physical delivery of gas, power and oil. A portion of these transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the physical commodity in accordance with the Group's expected sale, purchase or usage requirements, and are not within the scope of IAS 39.

Certain purchase and sales contracts for the physical delivery of gas, power and oil are within the scope of IAS 39 due to the fact that they net settle or contain written options. Such contracts are accounted for as derivatives under IAS 39 and are recognised in the Balance Sheet at fair value. Gains and losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the Income Statement for the year.

The Group uses a range of derivatives for both trading and to hedge exposures to financial risks, such as interest rate, foreign exchange and energy price risks, arising in the normal course of business. The use of derivative financial instruments is governed by the Group's policies approved by the Board of Directors. Further detail on the Group's risk management policies is included within the Directors' Report - Governance on pages 49 to 51 and in note S3.

The accounting treatment for derivatives is dependent on whether they are entered into for trading or hedging purposes. A derivative instrument is considered to be used for hedging purposes when it alters the risk profile of an underlying exposure of the Group in line with the Group's risk management policies and is in accordance with established guidelines, which require the hedging relationship to be documented at its inception, ensure that the derivative is highly effective in achieving its objective, and require that its effectiveness can be reliably measured. The Group also holds derivatives which are not designated as hedges and are held for trading.

All derivatives are recognised at fair value on the date on which the derivative is entered into and are re-measured to fair value at each reporting date. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivative assets and derivative liabilities are offset and presented on a net basis only when both a legal right of set-off exists and the intention to net settle the derivative contracts is present.

The Group enters into certain energy derivative contracts covering periods for which observable market data does not exist. The fair value of such derivatives is estimated by reference in part to published price quotations from active markets, to the extent that such observable market data exists, and in part by using valuation techniques, whose inputs include data which is not based on or derived from observable markets. Where the fair value at initial recognition for such contracts differs from the transaction price, a fair value gain or fair value loss will arise. This is referred to as a day-one gain or day-one loss. Such gains and losses are deferred and amortised to the Income Statement based on volumes purchased or delivered over the contractual period until such time observable market data becomes available. When observable market data becomes available, any remaining deferred day-one gains or losses are recognised within the Income Statement. Recognition of the gains or losses resulting from changes in fair value depends on the purpose for issuing or holding the derivative. For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Income Statement and are included within gross profit or interest income and interest expense. Gains and losses arising on derivatives entered into for speculative energy trading purposes are presented on a net basis within revenue.

Embedded derivatives: Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value, with gains or losses reported in the Income Statement. The closely-related nature of embedded derivatives is reassessed when there is a change in the terms of the contract which significantly modifies the future cash flows under the contract. Where a contract contains one or more embedded derivatives, and providing that the embedded derivative significantly modifies the cash flows under the contract, the option to fair value the entire contract may be taken and the contract will be recognised at fair value with changes in fair value recognised in the Income Statement.

(i) Hedge accounting

For the purposes of hedge accounting, hedges are classified either as fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

Fair value hedges: A derivative is classified as a fair value hedge when it hedges the exposure to changes in the fair value of a recognised asset or liability. Any gain or loss from re-measuring the hedging instrument to fair value is recognised immediately in the Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Income Statement. The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer qualifies for hedge accounting or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the Income Statement. Amortisation

SUPPLEMENTARY INFORMATION CONTINUED

S2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges: A derivative is classified as a cash flow hedge when it hedges exposure to variability in cash flows that is attributable to a particular risk either associated with a recognised asset, liability or a highly probable forecast transaction. The portion of the gain or loss on the hedging instrument which is effective is recognised directly in equity while any ineffectiveness is recognised in the Income Statement. The gains or losses that are recognised directly in equity are transferred to the Income Statement in the same period in which the highly probable forecast transaction affects income, for example when the future sale of physical gas or physical power actually occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability on its recognition. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the Group revokes the designation.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the highly probable forecast transaction occurs. If the transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the Income Statement.

Net investment hedges: Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the effective portion of the hedge is recognised in equity, any gain or loss on the ineffective portion of the hedge is recognised in the Income Statement. On disposal of the foreign operation, the cumulative value of any gains or losses recognised directly in equity is transferred to the Income Statement.

Nuclear activity

The Group's investments in Lake Acquisitions Limited and NNB Holding Company Limited are accounted for as associates. The following accounting policies are specific to the accounting for the nuclear activity of these associates.

(a) Fuel costs – nuclear front end

Front end fuel costs consist of the costs of procurement of uranium, conversion and enrichment services and fuel element fabrication. All costs are capitalised into inventory and charged to the Income Statement in proportion to the amount of fuel burnt.

(b) Fuel costs – nuclear back end

Advanced Gas-cooled Reactors (AGR)

Spent fuel extracted from the reactors is sent for reprocessing and/or long-term storage and eventual disposal of resulting waste products. Back end fuel costs comprise a loading related cost per tonne of uranium and a rebate/surcharge to this cost dependent on the out-turn market electricity price in the year and are capitalised into inventory and charged to the Income Statement in proportion to the amount of fuel burnt.

Pressurised Water Reactor (PWR)

Back end fuel costs are based on wet storage in station ponds followed by dry storage and subsequent direct disposal of fuel. Back end fuel costs are capitalised into inventory on loading and charged to the Income Statement in proportion to the amount of fuel burnt.

(c) Nuclear property, plant and equipment and depreciation

The depreciation period for the nuclear fleet, which are depreciated on a straight-line basis from the date of the Group acquiring its share in British Energy, are as follows:

Hinkley Point and Hunterston	2016
Dungeness B	2018
Heysham 1 and Hartlepool	2019
Heysham 2 and Torness	2023
Sizewell B	2035

Expenditure on major inspection and overhauls of production plant is depreciated over the period until the next outage which for AGR power stations is two to three years and for the PWR power station is 18 months.

(d) Nuclear Liabilities Fund (NLF) funding arrangements

Under the arrangements in place with the Secretary of State, the NLF will fund, subject to certain exceptions, British Energy's qualifying uncontracted nuclear liabilities and qualifying decommissioning costs.

In part consideration for the assumption of these liabilities by the Secretary of State and the NLF, British Energy agreed to pay fixed decommissioning contributions each year and £150,000 (indexed to RPI) for every tonne of uranium in PWR fuel loaded into the Sizewell B reactor after the date of these arrangements.

(e) NLF and nuclear liabilities receivables

The Government indemnity is provided to indemnify any future shortfall on NLF funding of qualifying uncontracted nuclear liabilities (including PWR back end fuel services) and qualifying nuclear decommissioning costs such that the receivable equals the present value of the associated qualifying nuclear liabilities.

(f) Nuclear liabilities

Nuclear liabilities represent provision for British Energy's liabilities in respect of the costs of waste management of spent fuel and nuclear decommissioning.

(g) Unburnt fuels at shutdown

Due to the nature of the nuclear fuel process there will be quantities of unburnt fuel in the reactors at station closure. The costs relating to this unburnt fuel (final core) are estimated by applying a long-term inflation index to the projected costs, which are then discounted.

S3. FINANCIAL RISK MANAGEMENT

The Group's normal operating, investing and financing activities expose it to a variety of financial risks: market risk (including commodity price risk, volumetric risk, currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall risk management process is designed to identify, manage and mitigate business risk, which includes, among others, financial risk. Further detail on the Group's overall risk management process is included within the Directors' Report – Governance on pages 49 to 51.

Financial risk management is overseen by the Group Financial Risk Management Committee (GFRMC) according to objectives, targets and policies set by the Board. Commodity price risk management is carried out in accordance with individual business unit Financial Risk Management Committees and their respective financial risk management policies, as approved by the GFRMC under delegated authority from the Board. Treasury risk management, including management of currency risk, interest rate risk, equity price risk and liquidity risk is carried out by a central Group Treasury function in accordance with the Group's financing and treasury policy and collateral risk policy, as approved by the Board.

The wholesale credit risks associated with commodity trading and treasury positions are managed in accordance with the Group's credit risk policy. Downstream credit risk management is carried out in accordance with individual business unit credit policies.

Market risk management

Market risk is the risk of loss that results from changes in market prices (commodity prices, foreign exchange rates, interest rates and equity prices). The level of market risk to which the Group is exposed at a point in time varies depending on market conditions, expectations of future price or market rate movements and the composition of the Group's physical asset and contract portfolios.

(a) Commodity price risk management

The Group is exposed to commodity price risk in its upstream assets, energy procurement contracts, downstream and proprietary energy trading activities and uses specific limits to manage the exposure to commodity prices associated with the Group's activities to an acceptable level. Volumetric limits are supported by Profit at Risk (PaR) and Value at Risk (VaR) metrics in the UK and in North America to measure the

SUPPLEMENTARY INFORMATION CONTINUED

S3. FINANCIAL RISK MANAGEMENT CONTINUED

Group's exposure to commodity price risk. Limits are also set on PaR and VaR measurements as a further control over exposure to market prices.

(i) Energy procurement, upstream and downstream activities

The Group's energy procurement, upstream and downstream activities consist of equity gas and liquids production, equity power generation, bilateral procurement and sales contracts, market-traded purchase and sales contracts and derivative positions taken on with the intent of securing gas and power for the Group's downstream customers in the UK and North America from a variety of sources at an optimal cost. The Group actively manages commodity price risk by optimising its asset and contract portfolios and making use of volume flexibility.

The Group is exposed to commodity price risk in its energy procurement, upstream and downstream activities because the cost of procuring gas and electricity to serve its downstream customers varies with wholesale commodity prices. The risk is primarily that market prices for commodities will fluctuate between the time that sales prices are fixed or tariffs are set and the time at which the corresponding procurement cost is fixed, thereby potentially reducing expected margins or making sales unprofitable.

The Group is also exposed to volumetric risk in the form of an uncertain consumption profile arising from a range of factors, including weather, energy consumption changes, customer attrition and economic climate.

In order to manage the exposure to market prices associated with the Group's energy procurement, upstream and downstream activities the Group uses a specific set of limits (including position, volumetric, VaR/PaR) established by the Executive Committee and governed by GFRMC oversight along with business unit market risk policies.

Volumetric limits are supported by PaR and VaR metrics in the UK and in North America to measure the Group's exposure to commodity price risk. Limits are also set on PaR and VaR measurements as a further control over exposure to market prices. PaR measures the estimated potential loss in a position or portfolio of positions associated with the movement of a commodity price for a given confidence level, over the remaining term of the position or contract portfolio. VaR measures the estimated potential loss for a given confidence level over a predetermined holding period. The standard confidence level used is 95%. In addition, stress tests are regularly performed to evaluate the impact of substantial movements in commodity prices.

The Group measures and manages the commodity price risk associated with the Group's entire energy procurement, upstream and downstream portfolio. Only certain of the Group's energy procurement, upstream and downstream contracts constitute financial instruments under IAS 39 (note 24).

As a result, while the Group manages the commodity price risk associated with both financial and non-financial energy procurement, upstream and downstream contracts, it is the notional value of energy contracts being carried at fair value that represents the exposure of the Group's energy procurement, upstream and downstream activities to commodity price risk according to IFRS 7, Financial Instruments: Disclosures. This is because energy contracts that are financial instruments under IAS 39 are accounted for on a fair value basis and changes in fair value immediately impact profit or equity. Conversely, energy contracts that are not financial instruments under IAS 39 are accounted for as executory contracts and changes in fair value do not immediately impact profit or equity, and as such, are not exposed to commodity price risk as defined by IFRS 7. So whilst the PaR or VaR associated with energy procurement and downstream contracts outside the scope of IAS 39 is monitored for internal risk management purposes, only those energy contracts within the scope of IAS 39 are within the scope of the IFRS 7 disclosure requirements.

(ii) Proprietary energy trading

The Group's proprietary energy trading activities consist of physical and financial commodity purchases and sales contracts taken on with the intent of benefiting in the short term from changes in market prices or differences between buying and selling prices. The Group conducts its trading activities in the over-the-counter market and through exchanges in the UK, North America and continental Europe. The Group is exposed to commodity price risk as a result of its proprietary energy trading activities because the value of its trading assets and liabilities will fluctuate with changes in market prices for commodities.

The Group sets volumetric and VaR limits to manage the commodity price risk exposure associated with the Group's proprietary energy trading activities. The VaR used measures the estimated potential loss for a 95% confidence level over a one-day holding period. The holding period used is based on market liquidity and the number of days the Group would expect it to take to close out a trading position. The VaR limits set for proprietary trading activities are relatively small compared to the Group's overall operations and are less than £5 million. The carrying value of energy contracts used in proprietary energy trading activities at 31 December 2011 is disclosed in note 24.

As with any modelled risk measure, there are certain limitations that arise from the assumptions used in the VaR analysis. VaR assumes that the future will behave like the past and that the Group's trading positions can be unwound or hedged within the predetermined holding period. Furthermore, the use of a 95% confidence level, by definition, does not take into account changes in value that might occur beyond this confidence level.

(b) Currency risk management

The Group is exposed to currency risk on foreign currency denominated forecast transactions, firm commitments, monetary assets and liabilities (transactional exposure) and on its net investments in foreign operations (translational exposure).

(i) Transactional currency risk

The Group is exposed to transactional currency risk on transactions denominated in currencies other than the underlying functional currency of the commercial operation transacting. The Group's primary functional currencies are pounds sterling in the UK, Canadian dollars in Canada, US dollars in the US, Norwegian kroner in Norway and euros in the Netherlands. The risk is that the functional currency value of cash flows will vary as a result of movements in exchange rates. Transactional exposure arises from the Group's energy procurement activities in the UK and in Canada, where a proportion of transactions are denominated in euros or US dollars and on certain capital commitments denominated in foreign currencies. In addition, in order to optimise the cost of funding, the Group has, in certain cases, issued foreign currency denominated debt, primarily in US dollars, New Zealand dollars, euros or Japanese yen.

(ii) Translational currency risk

The Group is exposed to translational currency risk as a result of its net investments in North America and Europe. The risk is that the pounds sterling value of the net assets of foreign operations will decrease with changes in foreign exchange rates. The Group's policy is to protect the pounds sterling book value of its net investments in foreign operations, subject to certain parameters monitored by the GFRMC, by holding foreign currency debt, entering into foreign currency derivatives, or a mixture of both.

The Group measures and manages the currency risk associated with all transactional and translational exposures. In contrast, IFRS 7 only requires disclosure of currency risk arising on financial instruments denominated in a currency other than the functional currency of the commercial operation transacting. As a result, for the purposes of IFRS 7, currency risk excludes the Group's net investments in North America and Europe as well as foreign currency denominated forecast transactions and firm commitments. A sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in the fair value or future cash flows of foreign currency denominated financial instruments as a result of changes in foreign exchange rates is provided in note 25.

(c) Interest rate risk management

In the normal course of business the Group borrows to finance its operations. The Group is exposed to interest rate risk because the fair value of fixed rate borrowings and the cash flows associated with floating rate borrowings will fluctuate with changes in interest rates. The Group's policy is to manage the interest rate risk on long-term borrowings by ensuring the exposure to floating interest rates remains within a 30% to 70% range, including the impact of interest rate derivatives. A sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial

SUPPLEMENTARY INFORMATION CONTINUED

S3. FINANCIAL RISK MANAGEMENT CONTINUED

position and performance to changes in interest rates is provided in note 25.

(d) Equity price risk management

The Group is exposed to equity price risk because certain available-for-sale financial assets, held by the Law Debenture Trust on behalf of the Company as security in respect of the Centrica Unapproved Pension Scheme, are linked to equity indices (note 29). Investments in equity indices are inherently exposed to less risk than individual equity investments because they represent a naturally diverse portfolio. Note 29 details the Group's other retirement benefit assets and liabilities.

(e) Sensitivity analysis

IFRS 7 requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Group's financial position and performance to changes in market variables (commodity prices, foreign exchange rates and interest rates) as a result of changes in the fair value or cash flows associated with the Group's financial instruments. The sensitivity analysis provided discloses the effect on profit or loss and equity at 31 December 2011 assuming that a reasonably possible change in the relevant risk variable had occurred at 31 December 2011 and been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes in price on profit or loss and equity to the next annual reporting date. Reasonably possible changes in market variables used in the sensitivity analysis are based on implied volatilities, where available, or historical data for energy prices and foreign exchange rates. Reasonably possible changes in interest rates are based on management judgement and historical experience.

The sensitivity analysis has been prepared based on 31 December 2011 balances and on the basis that the balances, the ratio of fixed to floating rates of debt and derivatives, the proportion of energy contracts that are financial instruments, the proportion of financial instruments in foreign currencies and the hedge designations in place at 31 December 2011 are all constant. Excluded from this analysis are all non-financial assets and liabilities and energy contracts that are not financial instruments under IAS 39. The sensitivity to foreign exchange rates relates only to monetary assets and liabilities denominated in a currency other than the functional currency of the commercial operation transacting, and excludes the translation of the net assets of foreign operations to pounds sterling, but includes the corresponding impact of financial instruments used in net investment hedges.

The sensitivity analysis provided is hypothetical only and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced because the Group's actual exposure to market rates is changing constantly as the Group's portfolio of commodity, debt and foreign currency contracts changes. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering inter-relationships between the various market rates or mitigating actions that would be taken by the Group. The sensitivity analysis provided in note 25 excludes the impact of proprietary energy trading assets and liabilities because the VaR associated with the Group's proprietary energy trading activities is less than £5 million.

Credit risk management

Credit risk is the risk of loss associated with a counterparty's inability or failure to discharge its obligations under a contract. The Group is exposed to credit risk in its treasury, trading, energy procurement and downstream activities. The Group continues to take steps to tighten downstream credit policies, including the tightening of credit scores in customer management processes, whilst continuing to manage credit risk in accordance with financial risk management processes.

Note 25 provides further detail of the Group's exposure to credit risk on its financial assets.

(a) Treasury, trading and energy procurement activities

Wholesale counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The majority of significant exposures are with counterparties rated A–/A3 or better. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of bank and parent company guarantees and letters of credit.

100% of the Group's credit risk associated with its treasury, trading and energy procurement activities is with counterparties in related energy industries or with financial institutions.

IFRS 7 requires disclosure of information about the exposure to credit risk arising from financial instruments only. Only certain of the Group's energy procurement contracts constitute financial instruments under IAS 39 (note 24). As a result, whilst the Group manages the credit risk associated with both financial and non-financial energy procurement contracts, it is the carrying value of financial assets within the scope of IAS 39 (note 24) that represents the maximum exposure to credit risk in accordance with IFRS 7.

(b) Downstream activities

In the case of business customers, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. For residential customers, creditworthiness is ascertained normally before commencing trade to determine the payment mechanism required to reduce credit risk to an acceptable level. Certain customers will only be accepted on a prepayment basis or with a security deposit. In some cases, an ageing of receivables is monitored and used to manage the exposure to credit risk associated with both business and residential customers. In other cases, credit risk is monitored and managed by grouping customers according to method of payment or profile.

Liquidity risk management and going concern

Liquidity risk is the risk that the Group is unable to meet its financial obligations as they fall due. The Group experiences significant movements in its liquidity position due primarily to the seasonal nature of its business and margin cash arrangements associated with certain wholesale commodity contracts. To mitigate this risk the Group maintains significant committed facilities and holds cash on deposit. The Group's liquidity position has remained strong throughout 2011.

S4. OTHER EQUITY

Merger reserve

During February 1997, BG plc (formerly British Gas plc) demerged certain businesses (grouped together under GB Gas Holdings Limited (GBGH)) to form Centrica plc. Upon demerger, the share capital of GBGH was transferred to Centrica plc and was recorded at the nominal value of shares issued to BG plc shareholders. In accordance with the Companies Act 1985, no premium was recorded on the shares issued. On consolidation, the difference between the nominal value of the Company's shares issued and the amount of share capital and share premium of GBGH at the date of demerger was credited to a merger reserve.

Capital redemption reserve

In accordance with the Companies Act 1985, the Company transferred to the capital redemption reserve an amount equal to the nominal value of shares repurchased and subsequently cancelled (£16 million).

Revaluation reserve

During 2005, the revaluation of the Group's existing interest in Centrica SHB Limited to fair value, following the acquisition by the Group of the remaining 40% stake in the company, was recorded as a revaluation reserve adjustment. The remainder of the revaluation reserve relates to a 2009 revaluation of producing gas and oil assets located in Alberta, Canada, following the acquisition by the Group of additional interests.

Treasury shares reserve

Treasury shares reserve reflects the cost of shares in the Company held in share-based payment plans to meet future obligations to deliver shares to employees on vesting.

Share-based payments reserve

The share-based payments reserve reflects the obligation to deliver shares to employees under the Group's share schemes in return for services provided.

SUPPLEMENTARY INFORMATION CONTINUED

S5. SEGMENTAL ANALYSIS

The measure of profit used by the Centrica Executive Committee is adjusted operating profit. Adjusted operating profit is operating profit before exceptional items and certain re-measurements (refer to note 7), before additional depreciation resulting from any fair value uplifts on Strategic Investments (refer to notes 2 and 11) and including the results from joint ventures and associates which are included before interest and tax. All transactions between segments are on an arm's length basis.

Centrica's operating segments are those used internally by management to run the business and make decisions. Centrica's operating segments are based on products and services provided in each geographical area. The operating segments are also the Group's reportable segments. The types of products and services from which each reportable segment derives its revenues are:

Segment	Description
Downstream UK:	
Residential energy supply	The supply of gas and electricity to residential customers in the UK
Residential services	Installation, repair and maintenance of domestic central heating, plumbing and drains, gas appliances and kitchen appliances, including the provision of fixed-fee maintenance/breakdown service and insurance contracts in the UK
Business energy supply and services	The supply of gas and electricity and provision of energy-related services to business customers in the UK
Upstream UK:	
Gas	Production, processing, trading and optimisation of gas and oil and the development of new fields to grow reserves
Power	Generation, trading and optimisation of power from thermal, nuclear and wind sources
Storage UK	Gas storage in the UK
North America:	
Residential energy supply	The supply of gas and electricity to residential customers in North America
Business energy supply	The supply of gas, electricity and energy-related services to business customers in North America
Residential and business services	Installation and maintenance of Heating, Ventilation and Air Conditioning (HVAC) equipment, water heaters and the provision of breakdown services in North America
Upstream and wholesale energy	Gas production, power generation and procurement and trading activities in the North American wholesale energy markets

S6. PENSIONS

Pension schemes

The Registered Pensions Schemes are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employer contributions which, together with the specified contributions payable by the employees and proceeds from the schemes' assets, are expected to be sufficient to fund the benefits payable under the schemes.

The latest full actuarial valuations were carried out at the following dates: the Registered Pensions Schemes at 31 March 2009, the Unapproved Pension Scheme at 6 April 2011 and the Direct Energy Marketing Limited pension plan at 31 December 2010. These have been updated to 31 December 2011 for the purposes of meeting the requirements of IAS 19. Investments have been valued for this purpose at market value.

Governance

The Registered Pension Schemes are managed by trustee companies whose boards consist of both company-nominated and member-nominated directors. Each scheme holds units in the Centrica Combined Common Investment Fund (CCCIF), which holds the combined assets of the participating schemes. The method of allocation of units is set out in the Trust Deed of the CCCIF. The board of CCCIF Limited is comprised of nine directors: three independent directors, three directors appointed by Centrica plc (including the chairman) and one director appointed by each of the three participating schemes. No direct investments are made in securities issued by Centrica plc or any of its subsidiaries, property leased to or owned by Centrica plc or any of its subsidiaries or securities of any fund manager or any of their associated companies.

Under the terms of the Pensions Act 2004, Centrica plc and each trustee board must agree the funding rate for its defined benefit pension scheme and a recovery plan to fund any deficit against the scheme-specific statutory funding objective. This approach was first adopted for the triennial valuations completed at 31 March 2006 and was again reflected in the 31 March 2009 valuations.

S7. SHARE SCHEMES

Long Term Incentive Scheme (LTIS)

Under the LTIS, allocations of shares in Centrica plc are reserved for employees at senior management level. The number of shares to be released to participants is calculated subject to the Company's total shareholder return (TSR) and earnings per share (EPS) growth during the three years following the grant date. Shares are released to participants immediately following the end of the period in which performance is assessed, however release of shares is subject to continued employment within the Group at the date of release. The vesting of half of each award is made on the basis of TSR performance and is valued using a Monte Carlo simulation model. The vesting of the remaining half of awards is dependent on EPS growth. This is a non-market condition and therefore the fair value of these awards is considered to be the market value at the grant date. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest.

Deferred and Matching Share Scheme (DMSS)

Awards under the DMSS are reserved for employees within the senior executive group. Under normal conditions the grant date of the scheme is the first day of each bonus year. This is followed by a vesting period of four years, being the bonus year plus a three-year performance period. The fair value of the award reflects the market value of the shares at the grant date. The scheme comprises three separate elements:

(a) Deferred shares

The scheme automatically requires participants to defer between 20% and 40% of their annual pre-tax bonus into the scheme. The shares are held in trust over the three-year performance period, during which time they cannot be withdrawn. An employee who leaves prior to the vesting date will forfeit their right to the shares (except where permitted by the rules of the scheme). All shares held in trust will be eligible to receive dividends.

(b) Investment shares

The scheme allows participants to elect to invest an additional amount of their annual bonus into the scheme up to a maximum of 50% of their total potential bonus for the year. This 50% limit includes the pre-tax amount automatically deferred each year. The shares may be funded directly from the employee and thus the shares do not attract an IFRS 2 charge. An employee who leaves prior to the vesting date will retain their investment shares.

(c) Matching shares

Deferred and investment shares will be matched with conditional matching shares, which will be released upon the achievement, over a three-year performance period, of three-year Group economic profit performance targets. Group economic profit is calculated by taking adjusted group operating profit (as defined in note 4) after tax and subtracting a charge for capital employed based on the Group's weighted average cost of capital. Further information on the operation of the DMSS and related performance conditions can be found on pages 58 to 60. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. Estimates are made in year one and revised in subsequent years. An employee who leaves prior to the vesting date will forfeit their right to the shares (except where permitted by the rules of the scheme).

S8. FIXED-FEE SERVICE AND INSURANCE CONTRACTS

Fixed-fee service contracts are entered into with home services customers in the UK and home and business services customers in North America. These contracts continue until cancelled by either party to the maintenance element.

SUPPLEMENTARY INFORMATION CONTINUED

S8. FIXED-FEE SERVICE AND INSURANCE CONTRACTS CONTINUED

Insurance contracts are entered into with home service customers in the UK by British Gas Insurance Limited (BGIL), a fully owned subsidiary of Centrica plc, an entity regulated by the Financial Services Authority (FSA) since August 2009. Product offerings include central heating, boiler and controls, plumbing and drains and electrical appliance insurance cover. These contracts are normally for periods of 12-months with the option of renewal.

Fixed-fee service and insurance contracts protect purchasers of these contracts against the risk of breakdown of electrical, plumbing, heating, cooling and household appliances, resulting in the transfer of an element of risk from contract holders to BGIL. Benefits provided to customers vary in accordance with terms and conditions of the contracts entered into, however, generally include repair and/or replacement of the items affected.

The risk and level of service required within these contracts is dependent upon the occurrence of uncertain future events, in particular the number of call-outs, the cost per call-out and the nature of the fault. Accordingly, the timing and amount of future cash outflows related to the contracts is uncertain. The key terms and conditions that affect future cash flows are as follows:

- provision of labour and parts for repairs, dependent on the agreement and associated level of service;
- one safety and maintenance inspection either annually or in every continuous two-year period, as set out in the agreement;
- no limit to the number of call-outs to carry out repair work; and
- caps on certain maintenance and repair costs within fixed-fee service and insurance contracts.

Revenue from fixed-fee service and insurance contracts is recognised with regard to the incidence of risk over the life of the contract, reflecting the seasonal propensity of claims to be made under the contracts and the benefits receivable by the customer, which span the life of the contract as a result of emergency maintenance being available throughout the contract term. Cost of sales relates directly to the engineer workforce employed by Centrica within home services, the cost of which is accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year. The costs of claims under the fixed-fee service and insurance contracts will be the costs of the engineer workforce employed by Centrica within home services. These costs are accounted for over a 12-month period with adjustments made to reflect the seasonality of workload over a given year.

Weather conditions and the seasonality of maintenance can affect the number of call-outs, the cost per call-out and the nature of the fault. BGIL's obligations under the terms of home services fixed-fee service and insurance contracts are based on the number of breakdowns occurring within the contract period. BGIL actively manages the risk exposure of these uncertain events by undertaking the following risk mitigation activities:

- an initial service visit is performed for central heating care and insurance cover. If, at the initial visit, faults that cannot be rectified are identified, the fixed-fee service and insurance contract will be cancelled and no further cover provided;
- an annual or biennial safety and maintenance inspection is performed to ensure all issues are identified prior to them developing into significant maintenance or breakdown issues; and
- caps on certain maintenance and repair work are incorporated into fixed-fee service and insurance contracts to limit liability in areas considered to be higher risk in terms of prevalence and cost to repair.

SUPPLEMENTARY INFORMATION CONTINUED

S9. PRINCIPAL UNDERTAKINGS

31 December 2011	Country of incorporation/formation	Percentage holding in ordinary shares and net assets	Principal activity
Subsidiary undertakings (i)			
Airtron Inc	USA	100	Home/commercial services
Bastrop Energy Partners LP	USA	100	Power generation
Brae Canada Ltd	Canada	100	Investment company
British Gas Energy Services Limited	England	100	Building services
British Gas Insurance Limited	England	100	Insurance provision
British Gas Services Limited	England	100	Residential services
British Gas Trading Limited	England	100	Energy supply
Centrica Barry Limited	England	100	Power generation
Centrica Brigg Limited	England	100	Power generation
Centrica Energy Limited (ii)	England	100	Wholesale energy trading
Centrica Energy (Trading) Limited (iii)	England	100	Proprietary energy trading
Centrica KL Limited	England	100	Power generation
Centrica KPS Limited	England	100	Power generation
Centrica Langage Limited	England	100	Power generation
Centrica LNG Company Limited	England	100	Energy supply
Centrica North Sea Gas Limited (iv)	Scotland	100	Gas and oil production
Centrica North Sea Oil Limited (v)	Scotland	100	Gas and oil production
Centrica Norway Limited	England	100	Gas and oil exploration and production
Centrica PB Limited	England	100	Power generation
Centrica Production Nederland B.V.	Netherlands	100	Gas and oil exploration and production
Centrica Resources Limited	England	100	Gas and oil exploration and production
Centrica RPS Limited	England	100	Power generation
Centrica SHB Limited	England	100	Power generation
Centrica Storage Limited	England	100	Gas storage
Clockwork Inc (vi)	USA	100	Home services
CPL Retail Energy LP	USA	100	Energy supply
Direct Energy LP	USA	100	Energy supply
Direct Energy Business LLC	USA	100	Energy supply
Direct Energy Marketing Inc	USA	100	Wholesale energy trading
Direct Energy Marketing Limited	Canada	100	Energy supply and home services
Direct Energy Partnership	Canada	100	Energy supply
Direct Energy Resources Partnership	Canada	100	Gas production
Direct Energy Services LLC	USA	100	Energy supply and home services
Direct Energy US Home Services Inc	USA	100	Home/commercial services
Dyno Holdings Limited	England	100	Home services
Energy America LLC	USA	100	Energy supply
FCP Enterprises Inc (vii)	USA	100	Energy supply
Frontera Generation LP	USA	100	Power generation
Gateway Energy Services Corporation (viii)	USA	100	Energy supply
GB Gas Holdings Limited	England	100	Holding company
Hydrocarbon Resources Limited	England	100	Gas production
Paris Generation LP	USA	100	Power generation
Vectren Retail LLC (viii)	USA	100	Energy supply
WTU Retail Energy LP	USA	100	Energy supply

(i) All principal undertakings are held indirectly by the Company. The information is only given for those subsidiaries which in the Directors' opinion principally affect the figures shown in the Financial Statements.
(ii) Previously called Accord Energy Limited.
(iii) Previously called Accord Energy (Trading) Limited.
(iv) Previously called Venture North Sea Gas Limited.
(v) Previously called Venture North Sea Oil Limited.
(vi) Holding company for the Clockwork group of companies.
(vii) Holding company for the First Choice Power group of companies acquired in 2011.
(viii) Acquired in 2011.

The principal joint ventures and associate investments held by the Group are disclosed in note 16.

A full list of related undertakings is included in the Company's Annual Return submitted to the Registrar of Companies.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CENTRICA PLC

We have audited the parent Company Financial Statements of Centrica plc for the year ended 31 December 2011 which comprise the Company Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As explained more fully in the Directors' Responsibility Statement set out on page 51 the Directors are responsible for the preparation of the parent Company Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent Company Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited Financial Statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent Company Financial Statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2011;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the parent Company Financial Statements are prepared is consistent with the parent Company Financial Statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the Group Financial Statements of Centrica plc for the year ended 31 December 2011.

John Maitland
Senior Statutory Auditor
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 February 2012

Financial Statements

COMPANY BALANCE SHEET

31 December	Notes	2011 £m	2010 £m
Fixed assets			
Tangible assets	III	**64**	38
Investments in subsidiary undertakings	IV	**2,154**	2,132
		2,218	2,170
Current assets			
Debtors	V	**10,522**	10,134
Current asset investments	VI	**181**	266
Cash at bank and in hand		**164**	93
		10,867	10,493
Creditors (amounts falling due within one year)			
Borrowings	VII	**(454)**	(50)
Other creditors	VIII	**(5,695)**	(5,606)
		(6,149)	(5,656)
Net current assets		**4,718**	4,837
Total assets less current liabilities		**6,936**	7,007
Creditors (amounts falling due after more than one year)			
Borrowings	VII	**(3,361)**	(3,622)
Other creditors	VIII	**(92)**	(69)
		(3,453)	(3,691)
Provisions for liabilities	IX	**(16)**	(6)
Net assets		**3,467**	3,310
Capital and reserves – equity interests			
Share capital	X	**319**	318
Share premium	X	**874**	833
Capital redemption reserve	X	**16**	16
Profit and loss account	X	**2,258**	2,143
Shareholders' funds	X	**3,467**	3,310

The Financial Statements on pages 124 to 128 were approved and authorised for issue by the Board of Directors on 23 February 2012 and were signed on its behalf by:

Sam Laidlaw
Chief Executive

Nick Luff
Group Finance Director

The notes on pages 125 to 128 form part of these Financial Statements, along with notes 26 and 32 to the Group Financial Statements.

NOTES TO THE COMPANY BALANCE SHEET

I. PRINCIPAL ACCOUNTING POLICIES OF THE COMPANY

Basis of preparation

The Company Balance Sheet has been prepared in accordance with applicable UK Accounting Standards consistently applied and under the Companies Act 2006. The accounts have been prepared under the going concern basis. No profit and loss account is presented for the Company as permitted by the Companies Act 2006. The Company profit after tax for the year was £899 million (2010: £361 million loss).

Presentation of derivative financial instruments

In line with the Group's accounting policy for derivative financial instruments, the Company has classified those derivatives held for the purpose of treasury management as current or non-current, based on expected settlement dates.

Employee share schemes

The Group has a number of employee share schemes under which it makes equity-settled share-based payments to certain employees. The material schemes are described in note 32 of the Group Financial Statements. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non-market-based vesting conditions). The fair value determined at the grant date is expensed on a straight-line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of awards that will vest and adjusted for the effect of non-market-based vesting conditions. The issue of share incentives by the Company to employees of its subsidiaries represents additional capital contributions. The addition to the Company's investment in subsidiary undertakings is reduced following the recharge of the associated costs to the subsidiaries.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS – EPS award	Market value on the date of grant
LTIS – TSR award	A Monte Carlo simulation to predict the total shareholder return performance
SAS and DMSS	Market value on the date of grant

Foreign currencies

Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities and transactions are taken to the Profit and Loss Account.

Tangible fixed assets

Tangible fixed assets are included in the Balance Sheet at cost, less accumulated depreciation and any provisions for impairment. Cost includes the original purchase price of the asset and the cost attributable to bringing it to its working condition for its intended use. Tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives of up to ten years.

Leases

Rentals under operating leases are charged to the Profit and Loss Account on a straight-line basis.

Investments

Fixed asset investments are held in the Balance Sheet at cost, less any provision for impairment as necessary. Current asset investments are stated at the lower of cost and net realisable value.

Pensions and other post-employment benefits

The Company's employees participate in a number of the Group's defined benefit pension schemes as described in note 29 to the Group Financial Statements. The Company is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. The charge to the Profit and Loss Account is equal to the contributions payable to the schemes in the accounting period. Details of the defined benefit schemes of the Group (accounted for in accordance with the Group's accounting policies detailed in note S2 in the Supplementary Information section of the Group Financial Statements) can be found in note 29 to the Group Financial Statements.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated, but not reversed, at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Financial instruments and borrowings

The Company's accounting policies for financial instruments and borrowings are consistent with those of the Group, and are disclosed in note S2. The Company's financial risk management policies are consistent with those of the Group and are described in the Directors' Report – Governance on pages 49 to 51 and in note S3.

The Company is exempted by FRS 29 from providing detailed disclosures in respect of its financial instruments because the Company is included within the Group's consolidated Financial Statements and its financial instruments are incorporated into the disclosures in the notes to the Group Financial Statements.

NOTES TO THE COMPANY BALANCE SHEET CONTINUED

II. DIRECTORS AND EMPLOYEES

Details of Directors' remuneration, share-based payments and pension entitlements in the Remuneration Report on pages 52 to 63 form part of these Financial Statements. Details of material employee share-based payments are given in note 32. Details of the remuneration of key management personnel are given in note 35.

III. TANGIBLE ASSETS

	2011 Plant, equipment and vehicles £m	2010 Plant, equipment and vehicles £m
Cost		
1 January	**111**	101
Additions	**44**	11
Disposals	**(3)**	(1)
31 December	**152**	111
Accumulated Depreciation		
1 January	**73**	62
Charge for the year	**17**	12
Disposals	**(2)**	(1)
31 December	**88**	73
NBV at 31 December	**64**	38

IV. INVESTMENTS IN SUBSIDIARY UNDERTAKINGS

	2011 Investments in subsidiaries' shares £m	2010 Investments in subsidiaries' shares £m
Cost		
1 January	**2,132**	2,122
Additions and disposals (i)	**22**	10
31 December	**2,154**	2,132

(i) Additions and disposals represent the net change in shares to be issued under employee share schemes in Group undertakings. Direct investments are held in Centrica Holdings Limited, Centrica Trading Limited and Centrica Beta Holdings Limited, all of which are incorporated in England. Principal undertakings are listed in note S9. The Directors believe that the carrying value of the investments is supported by their underlying net assets.

V. DEBTORS

	2011			2010		
	Due within one year £m	Due after more than one year £m	**Total £m**	Due within one year £m	Due after more than one year £m	Total £m
Amounts owed by Group undertakings	10,304	8	**10,312**	9,947	–	9,947
Derivative financial instruments (i)	8	175	**183**	5	151	156
Other debtors	3	–	**3**	6	–	6
Prepayments and other accrued income	13	11	**24**	14	11	25
	10,328	**194**	**10,522**	9,972	162	10,134

(i) Derivative financial instruments comprise foreign currency derivatives held for trading of £3 million (2010: £36 million), interest rate derivatives held for trading of £nil (2010: £3 million), interest rate derivatives held for hedging of £157 million (2010: £105 million) and foreign currency derivatives held for hedging of £22 million (2010: £12 million). The fair value of these derivatives is equivalent to the carrying value.

NOTES TO THE COMPANY BALANCE SHEET CONTINUED

VI. CURRENT ASSET INVESTMENTS

	2011 £m	2010 £m
Short-term investments	**181**	266

£54 million (2010: £54 million) of investments were held by the Law Debenture Trust, on behalf of the Company, as security in respect of the Centrica Unapproved Pension Scheme (refer to note 29 of the Group Financial Statements).

VII. BORROWINGS

	2011		2010	
Amounts falling due	**Within one year £m**	**After one year £m**	Within one year £m	After one year £m
Bank loans and overdrafts	**49**	**192**	50	215
Commercial paper	**114**	**–**	–	–
Bonds	**291**	**3,169**	–	3,407
	454	**3,361**	50	3,622

The Company's financial instruments and related disclosures are included within the consolidated Group Financial Statements. As permitted by FRS 29, Financial Instruments: Disclosures, further detailed disclosure in respect of the Company's financial instruments is not included. Disclosures in respect of the Group's borrowings are provided in note 12 to the Group Financial Statements.

VIII. OTHER CREDITORS

	2011		2010	
	Due within one year £m	**Due after more than one year £m**	Due within one year £m	Due after more than one year £m
Trade creditors	**44**	**–**	13	–
Amounts owed to Group undertakings	**5,582**	**–**	5,502	4
Derivative financial instruments (i)	**5**	**92**	27	65
Taxation and social security	**4**	**–**	4	–
Accruals and deferred income	**60**	**–**	60	–
	5,695	**92**	5,606	69

(i) Derivative financial instruments comprise foreign currency derivatives held for trading of £5 million (2010: £76 million), interest rate derivatives held for trading of £86 million (2010: £16 million) and interest rate derivatives held for hedging of £6 million (2010: £nil). The fair value of these derivatives is equivalent to the carrying value.

IX. PROVISIONS FOR LIABILITIES

	1 January 2011 £m	Profit and loss charge £m	Utilised in the year £m	Reserves movements £m	**31 December 2011 £m**
Other provisions	6	18	(8)	–	**16**
Deferred tax	–	(1)	–	1	**–**
	6	17	(8)	1	**16**

Potential unrecognised deferred corporation tax assets amounted to £11 million (2010: £3 million), primarily relating to other timing differences. Other provisions principally represent estimated liabilities for contractual settlements, business restructuring and National Insurance in respect of employee share scheme liabilities. The National Insurance provision was based on a share price of 289 pence at 31 December 2011 (2010: 331 pence). The majority of the amounts are expected to be utilised by 2015.

NOTES TO THE COMPANY BALANCE SHEET CONTINUED

X. SHAREHOLDERS' FUNDS AND RESERVES

	Profit and loss account									
	Cash flow hedging reserve £m	Treasury shares £m	Share-based payments reserve £m	Retained earnings £m	**Profit and loss account £m**	Share capital £m	Share premium £m	Capital redemption reserve £m	**2011 Total £m**	2010 Total £m
1 January 2011	1	(22)	78	2,086	**2,143**	318	833	16	**3,310**	4,290
Profit for the year [i]	–	–	–	899	**899**	–	–	–	**899**	(361)
Losses on revaluation of cash flow hedges (net of taxation)	(27)	–	–	–	**(27)**	–	–	–	**(27)**	(1)
Dividends	–	–	–	(762)	**(762)**	–	–	–	**(762)**	(668)
Employee share schemes:										
Increase in treasury shares	–	(19)	–	–	**(19)**	–	–	–	**(19)**	(20)
Value of services provided	–	–	40	–	**40**	–	–	–	**40**	48
Exercise of awards	–	22	(28)	(9)	**(15)**	–	–	–	**(15)**	(37)
Gains on revaluation of available-for-sale securities (net of taxation)	–	–	–	(1)	**(1)**	–	–	–	**(1)**	3
Share issue	–	–	–	–	**–**	1	41	–	**42**	56
Net movement for the financial year	**(27)**	**3**	**12**	**127**	**115**	**1**	**41**	**–**	**157**	(980)
31 December 2011	**(26)**	**(19)**	**90**	**2,213**	**2,258**	**319**	**874**	**16**	**3,467**	3,310

(i) As permitted by section 408(3) of the Companies Act 2006, no profit and loss account is presented. The Company's profit for the year was £899 million (2010: loss of £361 million) before dividends paid of £762 million (2010: £668 million).

The Directors propose a final dividend of 11.11 pence per share (totalling £575 million) for the year ended 31 December 2011. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 11 May 2012. These Financial Statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2012.

Details of the Company's share capital are provided in the Group Statement of Changes in Equity and note 26 to the Group Financial Statements.

XI. COMMITMENTS

At 31 December 2011, the Company had commitments of £171 million (2010: £205 million) relating to contracts with outsource service providers. At 31 December 2011, lease commitments over land and buildings included non-cancellable operating lease payments due under one year of £1 million (2010: £1 million), within one to five years of £1 million (2010: £1 million) and guaranteed operating commitments of a subsidiary undertaking of £7 million (2010: £7 million).

GAS AND LIQUIDS RESERVES (UNAUDITED)

The Group's estimates of reserves of gas and liquids are reviewed as part of the half-year and full-year reporting process and updated accordingly. A number of factors affect the volumes of gas and liquids reserves, including the available reservoir data, commodity prices and future costs. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of reserves are subject to change as additional information becomes available.

The Group discloses 2P gas and liquids reserves, representing the central estimate of future hydrocarbon recovery. Reserves for Centrica-operated fields are estimated by in-house technical teams composed of geoscientists and reservoir engineers. Reserves for non-operated fields are estimated by the operator, but are subject to internal review and challenge.

As part of the internal control process related to reserves estimation, an assessment of the reserves, including the application of the reserves definitions is undertaken by an independent technical auditor. An annual reserves assessment has been carried out by DeGoyler and MacNaughton for the Group's global reserves. Reserves are estimated in accordance with a formal policy and procedure standard.

The Group has estimated 2P gas and liquids reserves in Europe, North America and Trinidad and Tobago.

The principal fields in UK Upstream are South Morecambe, Cygnus, Statfjord, Chiswick, NCMA Poinsettia, Ensign, York, Olympus, Grove and Kew fields associated with Upstream UK, and the Rough field associated with Storage UK. The European and Trinidad and Tobago reserves estimates are consistent with the guidelines and definitions of the Society of Petroleum Engineers, the Society of Petroleum Evaluation Engineers and the World Petroleum Council's Petroleum Resources Management System using accepted principles.

The principal fields in North America are Foothills, Medicine Hat, Entice and Central Alberta located in the province of Alberta, Canada. The North American reserves estimates have been evaluated in accordance with the Canadian Oil and Gas Evaluation Handbook (COGEH) reserves definitions and are consistent with the guidelines and definitions of the Society of Petroleum Engineers and the World Petroleum Council.

Estimated net 2P reserves of gas (billion cubic feet)	Europe	Trinidad and Tobago (iv)	**UK Upstream**	North America	**Total**
1 January 2011	2,026	161	**2,187**	538	**2,725**
Revisions of previous estimates (i)	8	15	**23**	58	**81**
Purchases/(disposals) of reserves in place (ii)	–	–	**–**	43	**43**
Extensions, discoveries and other additions (iii)	199	–	**199**	20	**219**
Production (v)	(193)	(15)	**(208)**	(56)	**(264)**
31 December 2011	**2,040**	**161**	**2,201**	**603**	**2,804**

Estimated net 2P reserves of liquids (million barrels)	Europe	Trinidad and Tobago (iv)	**UK Upstream**	North America	**Total**
1 January 2011	64	5	**69**	6	**75**
Revisions of previous estimates (i)	8	–	**8**	2	**10**
Purchases/(disposals) of reserves in place	–	(5)	**(5)**	–	**(5)**
Extensions, discoveries and other additions (iii)	14	–	**14**	1	**15**
Production (v)	(13)	–	**(13)**	(1)	**(14)**
31 December 2011	**73**	**–**	**73**	**8**	**81**

Estimated net 2P reserves (million barrels of oil equivalent)	Europe	Trinidad and Tobago (iv)	**UK Upstream**	North America	**Total**
31 December 2011 (vi)	**413**	**27**	**440**	**109**	**549**

(i) Includes minor reserves revisions to a number of fields in Europe, North America and Trinidad and Tobago.
(ii) Reflects the acquisition of additional equity in the Foothills properties in North America.
(iii) Recognition of reserves predominantly associated with Chiswick, Olympus, Grove, Kew and Foothills.
(iv) The Trinidad and Tobago reserves are subject to a production sharing contract and accordingly have been stated on an entitlement basis (including tax barrels).
(v) Represents total gas and oil produced from the Group's reserves.
(vi) Includes the total of estimated gas and liquid reserves at 31 December 2011 in million barrels of oil equivalent.

Liquids reserves include oil, condensate and natural gas liquids.

Financial Statements

FIVE YEAR RECORD

Year ended 31 December	2007 (restated) (i) (iii) £m	2008 (restated) (i) (ii) (iii) £m	2009 £m	2010 £m	**2011 £m**
Group revenue from continuing operations (i) (iii)	15,893	20,872	21,963	22,423	**22,824**
Operating profit from continuing operations before exceptional items and certain re-measurements:					
Downstream UK	840	712	1,011	1,216	**1,005**
Upstream UK	663	881	525	771	**1,023**
Storage UK	240	195	168	169	**75**
North America	187	215	153	234	**312**
Adjusted operating profit – operating profit before exceptional items, certain re-measurements and impact from fair value uplifts from Strategic Investments	1,930	2,003	1,857	2,390	**2,415**
Share of joint ventures' and associates' interest and taxation	(2)	(3)	(11)	(78)	**(102)**
Other	1	(8)	(5)	–	**–**
Depreciation of fair value uplifts to property, plant and equipment (iv)	–	–	(27)	(118)	**(105)**
	1,929	1,992	1,814	2,194	**2,208**
Operating profit/(loss) from discontinued operations:					
European operations (v)	20	(52)	105	(2)	**13**
The Consumers' Waterheater Income Fund (vi)	39	–	–	–	**–**
Exceptional items and certain re-measurements after taxation	383	(1,048)	(288)	726	**(844)**
Profit/(loss) attributable to equity holders of the parent	1,505	(137)	844	1,935	**421**

	Pence	Pence	Pence	Pence	**Pence**
Earnings/(loss) per ordinary share (ii)	36.5	(3.3)	16.5	37.6	**8.2**
Adjusted earnings per ordinary share (ii) (vii) (viii)	27.2	21.7	21.7	25.2	**25.8**
Dividend per share declared in respect of the year (ix)	11.6	12.2	12.8	14.3	**15.4**

Assets and liabilities At 31 December	2007 (restated) (ii) (x) £m	2008 (restated) (ii) (x) £m	2009 £m	2010 £m	**2011 £m**
Goodwill and other intangible assets	1,539	2,181	2,822	3,454	**3,739**
Other non-current assets	4,942	6,341	9,650	9,815	**10,234**
Net current assets/(liabilities)	747	2,163	330	283	**(674)**
Non-current liabilities	(3,868)	(6,313)	(8,675)	(7,820)	**(7,699)**
Net assets of disposal groups held for sale	–	–	128	87	**–**
Net assets	3,360	4,372	4,255	5,819	**5,600**
Debt, net of cash, cash equivalents and securities:					
Net debt (excluding non-recourse debt)	(795)	(511)	(3,136)	(3,312)	**(3,435)**

Cash flows Year ended 31 December	2007 (restated) (xi) £m	2008 (restated) (xi) £m	2009 (restated) (xi) £m	2010 (restated) (xi) £m	**2011 £m**
Cash flow from operating activities before exceptional payments (xi)	2,343	279	2,430	2,651	**2,531**
Payments relating to exceptional charges	(90)	(74)	(203)	(223)	**(194)**
Net cash flow from investing activities (xi)	(860)	(1,030)	(4,100)	(1,584)	**(1,400)**
Cash flow before cash flow from financing activities	1,393	(825)	(1,873)	844	**937**

(i) Group revenue and cost of sales have been restated to report gas sales revenue of Centrica Storage net of cost of sales, to better reflect the nature of the transactions.
(ii) Restated to capitalise borrowing costs on the adoption of IAS 23 (Amendment) and to reflect the change in British Gas Services Limited's revenue recognition policy.
(iii) Restated to present the European Energy segment, with the exception of the Group's operations in Germany, as a discontinued operation. The operating profit of the Group's operations in Germany is reported within Upstream. Also restated to include the operating profit of joint ventures and associates pre-interest and tax.
(iv) The depreciation of British Energy fair value uplifts is shown net of taxation.
(v) Discontinued in 2009.
(vi) Discontinued in 2007.
(vii) Adjusted earnings per ordinary share excludes depreciation of fair value uplifts to PP&E from Strategic Investments after taxation and certain re-measurements and exceptional items.
(viii) Figures for 2007 have been adjusted to reflect the bonus element of a Rights Issue undertaken during 2008.
(ix) Figures for 2007 and 2008 have been adjusted to reflect the bonus element of a Rights Issue undertaken during 2008.
(x) Restated to classify the non-current portions of derivative financial instruments from current assets and liabilities to non-current assets and liabilities.
(xi) The 2007-2010 comparatives have been restated for a change in presentation of emission certificate/allowance cash flows. See note 1(d).

Appendix to the Directors' Report

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Frontera Energy Center, Texas, United States of America

Appendix to the Directors' Report – Business Review

PERFORMANCE MEASURES

BRITISH GAS

Downstream UK

	FY 2011	FY 2010	Δ%	H2 2011	H2 2010	Δ%
Total customer accounts (period end) ('000)	**25,742**	25,740	0.0	25,742	25,740	0.0
Total customer households (period end) ('000)	**11,997**	12,206	(1.7)	11,997	12,206	(1.7)
Joint product households (period end) ('000)	**2,207**	2,164	2.0	2,207	2,164	2.0
Gross revenue (£m)	**12,319**	12,730	(3.2)	5,994	5,996	(0.0)
Operating cost (excluding bad debt) (£m)	**1,425**	1,358	4.9	678	661	2.6
Operating profit (£m)*	**1,005**	1,216	(17)	487	374	30

Residential energy supply

	FY 2011	FY 2010	Δ%	H2 2011	H2 2010	Δ%
Customer accounts (period end)						
Gas ('000)	**9,139**	9,332	(2.1)	9,139	9,332	(2.1)
Electricity ('000)	**6,742**	6,646	1.4	6,742	6,646	1.4
Total ('000)	**15,881**	15,978	(0.6)	15,881	15,978	(0.6)
Estimated market share (%)						
Gas	**41.2**	42.2	(1.0) ppts	41.2	42.2	(1.0) ppts
Electricity	**25.2**	25.0	0.2 ppts	25.2	25.0	0.2 ppts
Average consumption						
Gas (therms)	**443**	564	(21)	181	245	(26)
Electricity (kWh)	**3,805**	3,982	(4.4)	1,858	1,970	(6)
Total consumption						
Gas (mmth)	**4,099**	5,291	(23)	1,669	2,294	(27)
Electricity (GWh)	**25,602**	26,002	(1.5)	12,600	13,016	(3.2)
Gross revenue (£m)						
Gas	**5,086**	5,570	(9)	2,348	2,460	(4.6)
Electricity	**3,027**	2,789	9	1,580	1,416	12
Total	**8,113**	8,359	(2.9)	3,928	3,876	1.3
Transmission and metering costs (£m)						
Gas	**1,212**	1,231	(1.5)	611	620	(1.5)
Electricity	**782**	714	10	401	378	6
Total	**1,994**	1,945	2.5	1,012	998	1.4
Total environmental costs (£m)	**429**	288	49	260	138	88
Total social costs (£m)	**78**	42	86	40	25	60
Operating profit (£m)*	**522**	742	(30)	252	157	61
Operating margin (%)	**6.4**	8.9	(2.5) ppts	6.4	4.1	2.3 ppts

Total environmental costs include ROCs, CERT and CESP
Total social costs include social and Warm Home discounts and winter rebate

* Including share of joint ventures and associates before interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Appendix to the Directors' Report – Business Review

British Gas Operating Review on pg 14

Residential services

	FY 2011	FY 2010	Δ%	H2 2011	H2 2010	Δ%
Customer product holdings (period end)						
Central heating service contracts ('000)	**4,696**	4,684	0.3	4,696	4,684	0.3
Kitchen appliances care (no. of customers) ('000)	**476**	438	9	476	438	9
Plumbing and drains care ('000)	**1,884**	1,781	6	1,884	1,781	6
Home electrical care ('000)	**1,462**	1,480	(1.2)	1,462	1,480	(1.2)
Other contracts ('000)	**344**	335	2.7	344	335	2.7
Total holdings ('000)	**8,862**	8,718	1.7	8,862	8,718	1.7
Domestic central heating installations ('000)	**105**	124	(15)	51	71	(28)
Gross revenue (£m)						
Central heating service contracts	**807**	774	4.3	411	403	2.0
Central heating installations	**295**	324	(9)	144	180	(20)
Other	**402**	366	10	200	190	5
Total	**1,504**	1,464	2.7	755	773	(2.3)
Engineering staff employed (period end)	**9,800**	9,954	(1.5)	9,800	9,954	(1.5)
Operating profit (£m)*	**264**	241	10	153	132	16
Operating margin (%)	**17.6**	16.5	1.1 ppts	20.3	17.1	3.2 ppts

Business energy supply and services

For the year ended 31 December	FY 2011	FY 2010	Δ%	H2 2011	H2 2010	Δ%
Customer supply points (period end)						
Gas ('000)	**363**	389	(7)	363	389	(7)
Electricity ('000)	**636**	655	(2.9)	636	655	(2.9)
Total ('000)	**999**	1,044	(4.3)	999	1,044	(4.3)
Average consumption						
Gas (therms)	**2,629**	3,152	(17)	1,130	1,368	(17)
Electricity (kWh)	**25,732**	29,326	(12)	12,895	14,415	(11)
Total consumption						
Gas (mmth)	**986**	1,250	(21)	413	538	(23)
Electricity (GWh)	**16,731**	19,060	(12)	8,320	9,388	(11)
Gross revenue (£m)						
Gas	**931**	1,062	(12)	416	459	(9)
Electricity	**1,771**	1,845	(4.0)	895	888	0.8
Total	**2,702**	2,907	(7)	1,311	1,347	(2.7)
Transmission and metering costs (£m)						
Gas	**188**	189	0.5	94	88	7
Electricity	**372**	382	(2.6)	188	184	2.2
Total	**560**	571	(1.9)	282	272	3.7
Operating profit (£m)*	**219**	233	(6)	82	85	(3.5)
Operating margin (%)	**8.1**	8.0	0.1 ppts	6.3	6.3	0.0 ppts

Appendix to the Directors' Report – Business Review

PERFORMANCE MEASURES CONTINUED

Centrica Energy Operating Review on pg 18
Centrica Storage Operating Review on pg 21

CENTRICA ENERGY
Upstream UK

	FY 2011	FY 2010	Δ%	H2 2011	H2 2010	Δ%
Upstream UK						
Operating profit (£m)*	**1,023**	771	33	492	286	72
Gas						
Gas production volumes (mmth)						
Morecambe	**817**	1,381	(41)	418	645	(35)
Other	**1,343**	1,169	15	663	572	16
Total	**2,160**	2,550	(15)	1,081	1,217	(11)
Average gas sales price (p/therm)	**51.6**	41.6	24	52.5	43.6	20
Oil and condensate production volumes (mmboe)	**12.5**	11.8	6	5.6	5.5	1.8
Average oil and condensate sales price (£/boe)	**57.2**	46.8	22	56.9	52.6	8
Production costs (£m)	**1,127**	980	15	544	509	7
Operating profit (£m)*	**769**	566	36	355	204	74
Estimated net proven and probable reserves of gas (BCF)	**2,201**	2,187	0.6	nm	nm	nm
Estimated net proven and probable reserves of liquids (mmboe)	**73**	69	6	nm	nm	nm

2010 Gas and liquid production volumes restated from sales of production basis.
Reserves include Rough cushion gas
nm denotes not material

	FY 2011	FY 2010	Δ%	H2 2011	H2 2010	Δ%
Power						
Power generated (GWh)						
Gas-fired	**14,973**	22,786	(34)	7,542	10,458	(28)
Renewables	**596**	493	21	321	284	13
Nuclear	**11,157**	9,655	16	4,966	4,695	6
Total	**26,726**	32,934	(19)	12,829	15,437	(17)
Achieved clean spark spread (£/MWh)	**10.1**	11.6	(13)	9.3	11.4	(18)
Achieved power price (including ROCs) (£/MWh) – renewables	**111.2**	109.1	1.9	124.7	125.4	(0.6)
Achieved power price (£/MWh) – Nuclear	**48.5**	42.9	13	50.4	42.9	17
Operating profit (£m)*	**254**	205	24	137	82	67

CENTRICA STORAGE
Storage UK

	FY 2011	FY 2010	Δ%	H2 2011	H2 2010	Δ%
Average SBU price (in period) (pence)	**30.0**	42.1	(29)	25.2	39.7	(37)
Gross revenue (£m)						
Standard SBUs	**136**	191	(29)	58	91	(36)
Optimisation/other	**48**	76	(37)	29	28	4
Total	**184**	267	(31)	87	119	(27)
External revenue (£m)	**164**	232	(29)	76	104	(27)
Cost of gas (£m)	**19**	15	27	6	6	0.0
Operating profit (£m)*	**75**	169	(56)	36	72	(50)

* Including share of joint ventures and associates stated gross of interest and taxation, and before depreciation of fair value uplifts to property, plant and equipment from Strategic Investments and exceptional items and certain re-measurements

Appendix to the Directors' Report – Business Review

Direct Energy Operating Review on pg 23

DIRECT ENERGY
North America

	FY 2011	FY 2010	Δ%	H2 2011	H2 2010	Δ%
North America						
Gross revenue (£m)	**6,117**	5,997	2.0	3,021	2,914	3.7
Operating profit (£m)*	**312**	234	33	138	95	45
Residential energy supply						
Customer numbers (period end) ('000)	**3,364**	2,855	18	3,364	2,855	18
Gross revenue (£m)	**2,416**	2,502	(3.4)	1,126	1,133	(0.6)
Operating profit (£m)*	**161**	177	(9)	56	67	(16)
Operating margin (%)	**6.7**	7.1	(0.4) ppts	5.0	5.9	(0.9) ppts
2011 year end customer numbers exclude 66,000 customers re-classified as business energy supply customers						
Business energy supply						
Gas sales (mmth)	**714**	633	13	297	272	9
Electricity sales (GWh)	**46,350**	39,722	17	24,159	21,442	13
Gross revenue (£m)	**2,748**	2,682	2.5	1,372	1,363	0.7
Operating profit (£m)*	**110**	88	25	52	44	18
Operating margin (%)	**4.0**	3.3	0.7 ppts	3.8	3.2	0.6 ppts
Residential and business services						
Contract relationships (period end) ('000)	**2,283**	2,300	(0.7)	2,283	2,300	(0.7)
On demand jobs ('000)	**703**	582	21	658	469	40
Gross revenue (£m)	**520**	485	7	271	277	(2.2)
Operating profit (£m)*	**28**	15	87	19	7	171
Operating margin (%)	**5.4**	3.1	2.3 ppts	7.0	2.5	4.5 ppts
Upstream and wholesale energy						
Gas production volumes (mmth)	**567**	409	39	287	232	24
Power generated (GWh)	**5,247**	3,851	36	2,924	1,661	76
Gross revenue (£m)	**433**	328	32	252	141	79
Operating profit/(loss) (£m)*	**13**	(46)	–	11	(23)	–
Estimated net proven and probable reserves of gas (BCF)	**603**	**538**	**12**	**nm**	**nm**	**nm**
Estimated net proven and probable reserves of liquids (mmboe)	**8**	**6**	**33**	**nm**	**nm**	**nm**

North America with comparator year of 2010 restated to remove effect of foreign exchange movements

	FY 2011	FY 2010	Δ%	H2 2011	H2 2010	Δ%
Gross revenue (£m)						
Residential energy supply	**2,416**	2,488	(2.9)	1,126	1,126	0.0
Business energy supply	**2,748**	2,591	6	1,372	1,333	2.9
Residential and business services	**520**	479	9	271	275	(1.5)
Upstream and wholesale energy	**433**	316	37	252	138	83
North America revenue (£m)	**6,117**	5,874	4	3,021	2,872	5
Operating profit (£m)*						
Residential energy supply	**161**	174	(7)	56	65	(14)
Business energy supply	**110**	83	33	52	43	21
Residential and business services	**28**	15	87	19	8	138
Upstream and wholesale energy	**13**	(44)	–	11	(23)	–
North America operating profit* (£m)	**312**	228	37	138	93	48

2010 figures restated at 2011 weighted average exchange rate

PERFORMANCE MEASURES
CORPORATE RESPONSIBILITY

TREATING CUSTOMERS FAIRLY

Metric	Unit	2011 target	2011 performance	2010 performance	What's next
British Gas Net Promoter Score (NPS)	See NPS definition on page 13	Measure only	+26*[(i)]	+24[(i)]	Achieve a British Gas NPS of +27 by end of 2012 by earning and maintaining customers' trust and providing the best value in the marketplace
Direct Energy Net Promoter Score (NPS)		Achieve a score of +28 in 2011	+28*	+21	Achieve a Direct Energy NPS of +27 by end of 2012
Vulnerable households helped by British Gas initiatives	Number	Measure only	1.7 million	1.6 million	Provide support to our most vulnerable customers through programmes such as the Warm Home Discount and British Gas Energy Trust

* Assured by Deloitte LLP for the 2011 ARA. See www.centrica.com/report2011/assurance to view Deloitte's full assurance statement and the Basis of Reporting
(i) NPS calculation methodology and scope for British Gas has altered in 2011, 2010 data has been restated at the new scope

ACHIEVING REDUCTIONS IN CARBON EMISSIONS

Metric	Unit	2011 target	2011 performance	2010 performance	What's next
Lifetime carbon savings driven by the Carbon Emissions Reduction Target (CERT)	Tonnes of CO_2 saved	16.3 million	14.6 million	15.6 million	Continue to lead the customer movement for low carbon products and services and deliver total lifetime savings of 15.6 million tonnes of CO_2 in 2012
Smart meter installations	Number of meters installed (cumulative since 2009)	Working towards end of 2012 target	453,907	260,351[(ii)]	Our end of 2012 target for cumulative smart meter installations has been reduced to 1.1 million. During 2012, we expect confirmation from the UK Government of roll-out timescales and related policies. This will create the environment for us to proceed to full scale roll-out
UK carbon intensity of power generation	CO_2/kWh	Reduce our UK power generation carbon intensity to 270g 2012 and 260g by 2020	UK: 200g*[(iii)] Group wide: 221g	UK: 277g[(iv)] Group wide: 277g	Our 2012 target will remain at 270g CO_2/kWh. We plan to review the 2020 target in the second half of 2012
Absolute carbon emissions (Scope 1 and Scope 2 emissions as defined by the Greenhouse Gas Protocol)	Tonnes CO_2e	Measure only	7.9 million	10.9 million[(v)]	
Internal carbon footprint (property, fleet and travel)	Tonnes of CO_2e	Reduce the carbon footprint of our existing offices, company vehicles and travel by 20% by 2015	95,234* a 5% reduction on 2010	100,193[(v)] a 6% reduction on 2009	Continue to work to our 2015 target By the end of 2011 we had achieved a 19% reduction from 2007 base year

* Assured by Deloitte LLP for the 2011 ARA. See www.centrica.com/report2011/assurance to view Deloitte's full assurance statement and the Basis of Reporting
(ii) 2010 total restated as a result of an internal audit review of the installation data
(iii) 2011 data subject to final EU ETS verification
(iv) Restated to represent 2010 figure verified by EU ETS
(v) This is an updated figure to that reported previously, following subsequent validation carried out on data

Appendix to the Directors' Report – Business Review

SAFETY

Metric	Unit	2011 target	2011 performance	2010 performance	What's next
Lost time injury rate (LTIR)	Per 100,000 hours worked	Reduce LTIR to 0.20 by end of 2013	0.25* (vi)	0.43 (vii)	Continue progress in reducing LTIR to 0.225 per 100,000 hours worked by the end of 2012
Total recordable injury rate (TRIR)	Per 100,000 hours worked	Reduce TRIR to 1.97	1.66* (vi)	2.13	Continue progress to reduce TRIR to 1.59 per 100,000 hours worked by end of 2012
Road safety incidents rate – low severity	Per 1 million km driven	Reduce road safety incidents (low severity) to 10	7.5*	9.5	In 2012, our road safety measurement will be based on avoidable incidents per 1 million km driven. A target will not be set for 2012 but numbers reported in the 2012 Annual Report
Road safety – number of high severity incidents	Number	Measure only	10*	8	
Fatalities	Number	Measure only	0*	0	

* Assured by Deloitte LLP for the 2011 ARA. See www.centrica.com/report2011/assurance to view Deloitte's full assurance statement and the Basis of Reporting

(vi) 2011 figure includes third-party managed contractors for the first time and is not directly comparable with 2010 data

(vii) 2010 figure has been restated to include Clockwork data on a proforma basis

OUR PEOPLE

Metric	Unit	2011 target	2011 performance	2010 performance	What's next
Diversity – female and male	Percentage	Promote diversity in leadership roles and recruitment	29.1 female 70.9 male	29.4 female 70.6 male	Continue to promote diversity in leadership roles and recruitment
Retention	Percentage	Retain 90% of our workforce in 2011	89.5*	89.9	Maintain the good levels of retention we've achieved through continued focus on engagement, recognition and rewards
Absence	Days per FTE	Reduce absence to 6.6	5.6*	6.8	Continue to promote a health-conscious work environment, working to maintain and improve levels of absenteeism

* Assured by Deloitte LLP for the 2011 ARA. See www.centrica.com/report2011/assurance to view Deloitte's full assurance statement and the Basis of Reporting

RESPONSIBLE BUSINESS PRACTICES, VALUES AND BEHAVIOURS

Metric	Unit	2011 target	2011 performance	2010 performance	What's next
Total community contributions	£ million	Invest in local communities and relevant charitable organisations(viii)	67.7	105.3	Make a positive contribution through the way we operate and by investing in, and engaging with, communities where we work in the UK, North America, and other parts of the world
Total employee volunteering hours	Number of hours	Support our employees in their volunteering efforts	81,969	52,599	
Business principles	Percentage	Achieve 95% completion by management level employees	98.6	99.1	Continue to embed an ethical business culture

(viii) Combination of figures calculated from London Benchmarking Group methodology and cost of voluntary programmes to support vulnerable customers in the UK. Group cash donations during the year amounted to £1.8 million (2010: £21.1 million). In line with Group policy, no donations were made for political purposes. The Group, in the normal course of its business, has paid for its management to attend events at which politicians and other opinion formers have been present, but does not consider these payments to be political donations

OTHER STATUTORY INFORMATION

MANAGEMENT REPORT

The Directors' Report for the year can be found on pages 2 to 63 and page 138. The management report for the year, as required by the Disclosure and Transparency Rules, is incorporated by reference within the Directors' Report.

MAJOR ACQUISITIONS AND DISPOSALS

Full details of acquisitions and disposals are disclosed in the Business Review on pages 5 to 40 and notes 30 and 31 to the Financial Statements on page 106.

EVENTS AFTER THE BALANCE SHEET DATE

Events after the balance sheet date are disclosed in note 37 to the Financial Statements on page 110.

RELATED PARTY TRANSACTIONS

Related party transactions are set out in note 35 to the Financial Statements on page 109.

CREDITOR PAYMENT POLICY

It is the Group's policy to:

- agree the terms of payment in advance with the supplier;
- ensure that suppliers are aware of the terms of payment; and
- pay in accordance with contractual and other legal obligations.

The number of days' purchases outstanding as at 31 December 2011 was 33 (2010: 34) for the Group (excluding Centrica Energy Limited) and 30 (2010: 28) for the Company.

ESSENTIAL CONTRACTUAL ARRANGEMENTS

The Group has contractual and other arrangements with various third parties. Whilst the loss of, or disruption to, certain of these arrangements could affect the operations of the Group temporarily, this Annual Report does not contain information about these third parties as none of the arrangements are considered to be essential to the Group's business.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

The following are significant agreements to which the Company is party which take effect, alter or terminate in the event of a change of control in the Company following a takeover bid:

- as part of the demerger in 1997, BG Group plc (which is a separately listed company and not a part of the Centrica Group) assigned ownership of the British Gas trade marks and related logos to Centrica for use in Great Britain. BG Group plc has the right to call for a re-assignment of this intellectual property if control of Centrica is acquired by a third party; and
- in 2009, Centrica entered into certain transactions with EDF Group in relation to an investment in British Energy, an owner and operator of nuclear power stations in the UK. The transactions include rights for EDF Group and Centrica to offtake power from existing and new build British Energy nuclear power stations and to invest in new build nuclear power stations. As part of these arrangements, on a change of control of Centrica, the Group loses its rights to participate on the Boards of the companies in which it has invested and on Technical Committees for new nuclear development. Furthermore, where the acquirer is not located in certain specified countries, EDF Group is able to require Centrica to sell out its investments.

CHARITABLE AND POLITICAL DONATIONS

During the year, the Group made cash charitable donations to support the community of £1.8 million (2010: £21.1 million). Total community contributions and related activities on community support are described in the appendix to the Directors' Report on page 137. Centrica's political donations policy states that Centrica operates on a politically neutral basis. No donations were made by the Group for political purposes during the year. However, in accordance with the Federal Election Campaign Act, Direct Energy has authorised the establishment of a Political Action Committee (PAC), to facilitate voluntary political contributions by its US employees. The PAC is not controlled by Centrica and contributions from the fund are determined by a governing board of PAC members. Participation in the PAC is voluntary for eligible employees. In 2011, contributions to the PAC by employees amounted to US$2,000. However, there were no donations to political organisations by the PAC.

SHARE CAPITAL

The Company was authorised at the 2011 AGM to allot shares within certain limits and as permitted by the Companies Act. A renewal of this authority will be proposed at the 2012 AGM. The Company's issued share capital as at 31 December 2011, together with details of shares issued during the year, is set out in note 26 to the Financial Statements on page 101.

Each ordinary share of the Company carries one vote. Further information on the voting and other rights of shareholders are set out in the Articles and in the explanatory notes which accompany notices of general meetings, all of which are available on the Company's website.

AUTHORITY TO PURCHASE SHARES

The Company was authorised at the 2011 AGM to purchase its own shares, within certain limits and as permitted by the Articles. A renewal of this authority will be proposed at the 2012 AGM. Shares repurchased may be cancelled or retained as treasury shares to accommodate requirements for shares under the Group's share incentive schemes. No shares were purchased under this authority during 2011.

MATERIAL SHAREHOLDINGS

At 31 December 2011 and 23 February 2012, Centrica had received notification of the following material shareholdings pursuant to the Disclosure and Transparency Rules:

	31 December 2011		23 February 2012		
	Ordinary shares	% of share capital	Ordinary shares	% of share capital	Nature of holding
Invesco Limited	258,200,185	4.99%	258,200,185	4.99%	Indirect
Legal & General Group	201,705,927	3.89%	201,705,927	3.89%	Direct
Petronas	199,375,000	3.85%	–	–	Direct

Shareholder Information

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Bastrop Energy Center, Texas, United States of America

SHAREHOLDER INFORMATION

MANAGING YOUR SHARES

Please contact our Registrar, Equiniti, to manage your shareholding. Further information is also available through the Shareholder Centre on our website, including frequently asked questions and forms available to download to assist in:

- transferring your shares;
- changing your registered name or address;
- registering a lost share certificate and obtaining a replacement;
- consolidating your share certificates;
- managing your dividend payments;
- buying, selling or transferring shares through Centrica FlexiShare;
- notifying the death of a shareholder; and
- registering for electronic communications.

You can also manage your shareholding online by registering for Shareview via the electronic communications section of the Shareholder Centre.

When calling Equiniti or registering online, you should have your shareholder reference number at hand. This can be found on your share certificate or dividend tax voucher. You should also include this on any correspondence.

If you hold less than 2,500 shares, you will be able to change your registered address or set up a dividend mandate instruction over the phone. For security, if you hold more than 2,500 shares, you will need to put this in writing.

You should note that if you receive more than one copy of documents that we send you, it is likely that you have more than one account on the share register, perhaps with a slightly different name or address. If you write to Equiniti and give them the shareholder reference numbers, they will be able to combine your accounts into one.

We are currently working with a specialist tracing agency, ProSearch, to identify shareholders whose details are not up to date and who have outstanding cash entitlements. Please notify Equiniti when you move house to ensure you continue to receive all our communications.

Centrica FlexiShare

FlexiShare is a convenient way to hold Centrica shares without a share certificate. Your shares would be held in a nominee company, Equiniti Corporate Nominees Limited, however your rights to attend and vote at general meetings are the same as if the shares were held in your own name. Holding your shares in this way is a free service and comes with a number of benefits:

- low cost share-dealing facilities, provided by three independent providers, full details of which are available on the Shareholder Centre together with dealing charges;
- quicker settlement periods for buying and selling shares; and
- the opportunity to elect for the Dividend Reinvestment Plan.

Dividends

Dividends on Centrica shares are usually paid in June and November. Details of the interim and final dividends for the year ended 31 December 2011 can be found in note 10 to the Financial Statements on page 82.

You are encouraged to receive your dividends directly to your bank or building society account. This means that you will receive the money on the day it is paid and avoids any risk of missing cheques. If you do choose to receive your dividends in this way, a consolidated tax voucher will be sent to you in March each year.

If you do not have a UK bank or building society account to receive dividend payments, Equiniti are able to pay dividends in local currencies in over 30 countries. For a small fee, you could have your dividends converted from sterling and paid into your designated bank account, usually within five days of the dividend being paid.

MANAGE MORE ONLINE

You can also view and manage your shareholding online. Go to the electronic communications section of the Shareholder Centre on our website at www.centrica.com/shareholdercentre

Shareholder Information

Shareholder communication

Due to changes in legislation, it is now possible for us to communicate to a greater extent with shareholders using our website. We strongly encourage our shareholders to receive communications electronically as it allows us to make considerable savings, both environmentally and financially, and allows you to:

- view the Annual Report and Annual Review on the day they are published;
- receive an email alert when shareholder communications are available;
- cast your AGM vote; and
- manage your shareholding quickly and securely.

Our website contains a wealth of other information, including:

- regular updates about our business;
- comprehensive share price information;
- financial results; and
- dividend payment dates and amounts.

Buying and selling shares with a share certificate

If you wish to buy or sell Centrica shares and hold a share certificate, you can do this:

- by using the services of a stockbroker or high street bank; or
- through telephone or online services.

In order to sell your shares in this way, you will need to present your share certificate at the time of sale.

American Depository Receipts (ADR)

We have an ADR programme, trading under the symbol CPYYY. Centrica's ratio is one ADR being equivalent to four UK shares. Further information is available from the Shareholder Centre or please contact:

ADR Depositary
The Bank of New York Mellon – Shareowner Services
P. O. Box 358516, Pittsburgh, PA
Email: shrrelations@bnymellon.com or via
www.bnymellon.com/shareowner
Telephone: 1-888-269-2377 toll-free in the US or
+1 201-680-6825 from outside the US
Website: www.adrbnymellon.com

Sharegift

It may be that you have a small number of shares and that it would cost you more to sell these than they are worth. It is possible to donate these to ShareGift, a registered charity, who provide a free service to enable you to dispose charitably of such shares. More information on this service can be obtained from **www.sharegift.org** or call +44 (0) 207 930 3737.

Scams and frauds

You should be wary of any unsolicited communications, such as:

- offers to buy or sell shares at a discount;
- opportunities to receive free company reports;
- free financial advice; and
- chances to invest in carbon credit trading schemes.

These approaches may be part of financial scams and can be very persistent, using hard sell tactics to persuade you to buy or sell shares or invest in carbon credit schemes.

The FSA provide comprehensive advice in relation to scams and frauds. Detailed information can be found on their website **www.fsa.gov.uk/pages/consumerinformation**. Any share-dealing facilities endorsed by the Company will be included in our mailings.

Centrica share history

Centrica's shares were first traded on the London Stock Exchange on 17 February 1997 following the demerger from British Gas plc. Since then there have been three events affecting the share capital, as shown below, with full details available from Equiniti and on our website:

- 1999 share consolidation;
- 2004 share consolidation; and
- 2008 rights issue.

CONTACT EQUINITI

CONTACT DETAILS FOR OUR REGISTRAR

Equiniti, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, United Kingdom

Telephone: 0871 384 2985* and outside the UK +44 121 415 7061
Textphone: 0871 384 2255* and outside the UK +44 121 415 7028

Email: centrica@equiniti.com

*Calls to this number are charged at 8 pence per minute from a BT landline. Other providers' telephony costs may vary. Lines are open 8.30am to 5.30pm, Monday to Friday (UK time) excluding UK public holidays.

SHAREHOLDER INFORMATION CONTINUED

FINANCIAL CALENDAR

25 April 2012	Ex-dividend date – 2011 final dividend
27 April 2012	Record date – 2011 final dividend
11 May 2012	AGM, Queen Elizabeth II Conference Centre, London SW1 (at 2pm)
13 June 2012	Payment date – 2011 final dividend
26 July 2012	2012 Half Year Results
26 September 2012*	Ex-dividend date – 2012 interim dividend
28 September 2012 *	Record date – 2012 interim dividend
14 November 2012*	Payment date – 2012 interim dividend

* Provisional

ANALYSIS OF SHAREHOLDERS AS AT 31 DECEMBER 2011

Distribution of shares by type of shareholder	Number of holdings	Shares
Nominees and institutional investors	14,079	4,832,078,015
Individuals	685,151	341,166,793
Total	699,230	5,173,244,808

Size of shareholding	Number of holdings	Shares
1–500	513,587	117,840,138
501–1,000	107,626	74,525,099
1,001–5,000	70,151	128,080,964
5,001–10,000	4,692	32,529,629
10,001– 50,000	1,935	35,392,223
50,001–100,000	246	17,846,650
100,001– 1,000,000	575	215,925,072
1,000,001 and above	418	4,551,105,033
Total	699,230	5,173,244,808

As at 31 December 2011 there were 74,210 participants in FlexiShare, with an aggregate shareholding of 127,514,453 shares registered in the name of Equiniti Corporate Nominees Limited.

ONLINE

This Annual Report can be viewed online. To see more go to www.centrica.com/report2011

ACCESSIBILITY

If you would like this Annual Report in an alternative format, such as large print, Braille or CD, you can request these in the following ways:

Telephone: 0800 111 4371 Textphone: 18001 0800 111 4371

Please note that these numbers should be used to request copies of alternative formats only. For general shareholder enquiries, please use the Centrica shareholder helpline 0871 384 2985*.

*Calls to this number are charged at 8 pence per minute from a BT landline. Other providers' telephony costs may vary. Lines are open from 8.30 am to 5.30 pm, Monday to Friday (UK time) excluding UK public holidays.

GLOSSARY

$	Refers to US dollars unless specified otherwise
<1 year	Less than 1 year
>1 year	Greater than 1 year
2P	Proven and probable
AFS	Available-for-sale
Associate	An entity in which the Group has an equity interest and over which it has the ability to exercise significant influence
BCF	Billion cubic feet
bbl	Barrels of oil
CER	Certified emissions reduction (carbon emissions certificate)
CERT	Carbon emissions reduction target
CGU	Cash generating unit
CPI	Consumer Price Index
EBITDA	Earnings before interest, tax, depreciation and amortisation
EUA	European Union allowance (carbon emissions certificate)
FSA	Financial Services Authority
FTSE 100	Financial Times Stock Exchange 100 share index, an average of share prices in the 100 largest, most actively traded companies on the London Stock Exchange
FVLCS	Fair value less costs to sell
g CO_2/kWh	Grammes of carbon dioxide per kilowatt hour
GFRMC	Group Financial Risk Management Committee
GWh	Gigawatt hour
IAS 19	The International Accounting Standard related to Employee Benefits. These financial reporting rules include requirements related to pension accounting
IAS 39	The International Accounting Standard related to financial instruments (recognition & measurement)
IFRS	International Financial Reporting Standard
Jointly controlled entity	A joint venture which involves the establishment of an entity to engage in economic activity, which the Group controls jointly with its fellow venturers
Level 1	Fair value is determined using observable inputs that reflect unadjusted quoted market prices for identical assets and liabilities, for example exchange-traded commodity contracts valued using close-of-day settlement prices. The adjusted market price used for financial assets held by the Group is the current bid price
Level 2	Fair value is determined using significant inputs that may be either directly observable inputs or unobservable inputs that are corroborated by market data, for example over-the-counter energy contracts within the active period valued using broker-quotes or third-party pricing services and foreign exchange or interest rate derivatives valued using market-based data
Level 3	Fair value is determined using significant unobservable inputs that are not corroborated by market data and may be used with internally developed methodologies that result in management's best estimate of fair value, for example energy contracts within the inactive period valued using in-house valuation techniques
LNG	Liquefied natural gas
mmboe	Million barrels of oil equivalent
mmth	Million therms
MWh	Megawatt hour
NBV	Net book value
NGO	Non-governmental organisation
PP&E	Property, plant and equipment
PRT	Petroleum revenue tax
ROC	Renewable obligation certificate
RPI	Retail Price Index
Securities	Comprised of Treasury gilts designated at fair value through profit or loss on initial recognition and available-for-sale financial assets. The fair values of securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using observable market data
SCT	Supplementary charge associated with UK Corporation Tax
Spark spread	The difference between the price of a unit of electricity and the cost of the gas used to generate it
VAT	Value added tax
VIU	Value in use

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